



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

JULY 30, 2009

Consumer Assistance to Recycle and Save Act of 2009 – Federal Rebate Program

Background Between July 1, 2009 through November 1, 2009, the National Highway Traffic Safety Administration (NHTSA) will administer the Consumer Assistance to Recycle and Save Act of 2009 (“CARS,” commonly called “Cash for Clunkers”), which provides a monetary incentive for owners of qualified vehicles to trade-in those vehicles toward the purchase or lease of new more fuel efficient vehicles. This Special Notice addresses only the tax treatment of the incentive payment. It does not address which vehicles qualify for the CARS program or conditions that must be satisfied for the participation in the program.

Issue incentive payment Is the payment of the incentive to the dealer treated as a trade-in allowance that reduces the measure of the retail sales tax?

Answer and reasoning **No, the incentive payment is not considered to be a trade-in allowance.**

The measure of the retail sales tax is the selling price. RCW 82.08.020(1). The selling price includes all amounts received except “separately stated trade-in property of like kind.” RCW 82.08.010(1).

The incentive payment is money paid by a third party for the benefit of the purchaser. The Department has consistently stated that a trade-in allowance is not available for amounts paid by third parties. For example, the Department does not allow a trade-in allowance for the amount of:

- Manufacturer’s rebates when assigned by the buyer to the dealer;
- Insurance proceeds from the destruction of a vehicle that are used to make a down payment on a replacement vehicle; or
- Proceeds from a private sale of a vehicle that are used to make a down payment on a replacement vehicle.

The amount of the incentive reduces the amount of money the purchaser must pay for the new vehicle, but it does not reduce the measure of the retail sales tax.