

Use Tax Facts for Vehicle Transactions

Since 1935, Washington residents have had the responsibility under state law to pay use tax on the purchase of a vehicle from a private party. The use tax is applied at the same rate as sales tax at the purchaser's address, and is paid by the buyer when the car title is transferred. For more information, please see Washington Administrative Code (WAC) 458-20-178, WAC 458-20-17802, WAC 458-20-145, and the Revised Code of Washington (RCW) 82.12.

How is the use tax determined?

By law, use tax is based on the fair market value at retail of the vehicle you purchase. The State compares the vehicle's purchase price to the fair market value of the vehicle by using a regional industry standard source called the automated valuing system. When the purchase price reflects the fair market value of a vehicle, use tax is based on what you paid. The State will accept your bill of sale as evidence of the vehicle's value as long as the purchase price is no more than \$2,000 below fair market value. If the purchase price is more than \$2,000 below fair market value, then use tax is based on fair market value unless you can provide evidence the vehicle is worth less.

What if my car is really worth less than fair market value?

If the price you paid truly reflects the fair market value of the vehicle after its condition is taken into account, then use tax can be assessed on what you paid. You must provide documentation to support the lower value. You cannot, however, pay less use tax just because you got a great deal on a car.

How can I document my vehicle is worth less than fair market value?

If you believe the purchase price represents the true value of the vehicle you can provide any one of the following for review:

- Alternate fair market value at retail from any industry-accepted pricing guide (i.e. NADA, Kelley Blue Book). The price guide must list the same year, make, and model as your vehicle and show the value at retail. Photocopies from a printed publication or printouts from the Internet are acceptable.
- Repair estimate(s) prepared by an auto repair or auto body repair business on company stationery or have the business card attached. The repair estimate must have an itemized list of repairs and also include the vehicle description, such as the vehicle make, model, and vehicle identification number.
- Written appraisal from a registered automobile dealer, insurance or other vehicle appraiser listing the value at retail.

A Declaration of Buyer and Seller Regarding Value of Used Vehicle Sold form may be provided to substantiate the purchase price is the true value of the vehicle. The declaration must be signed by both the buyer and the seller and must certify to the purchase price and the vehicle's condition under penalty of perjury. *This form cannot be used in place of a bill of sale.* If selected for audit by the Department of Revenue, supporting documentation such as an alternate retail fair market value, repair estimate, or written appraisal must be provided to prove the actual value of the vehicle. Without this documentation, claims to substantiate a lower value or that a transaction was exempt from tax will be disallowed, and may result in the assessment of additional tax, interest, and penalties.

Must I always establish my car is worth less than fair market value?

No. If the fair market value of your vehicle is \$5,000 or less, the use tax will be based on the purchase price. In this case, the \$2,000 leeway noted above becomes irrelevant.

Below are three examples to illustrate how the use tax works:

Example A- Vehicle purchase price within \$2,000 of fair market value

Fair market value:	\$11,500
Purchase price:	\$10,000
Difference:	\$1,500

Purchase price is within \$2,000 of fair market value, so use tax is based on purchase price. At a tax rate of 9%, the use tax on \$10,000 would be \$900.

Example B- Vehicle purchase price more than \$2,000 below fair market value

Fair market value:	\$11,500
Purchase price:	\$8,000
Difference:	\$3,500

Purchase price is more than \$2,000 below fair market value, so use tax is based on fair market value unless purchaser can demonstrate that vehicle is worth only \$8,000. At a tax rate of 9%, the use tax on \$11,500 would be \$1,035.00. However, if it is determined the value of the vehicle is only \$8,000 based on its condition; the use tax would be \$720.

Example C- Vehicle fair market value below \$5,000

Fair market value:	\$4,900
Purchase price:	\$1,000

Fair market value is less than \$5,000 so the use tax is based on the purchase price of \$1,000. At a tax rate of 9%, the use tax on \$1,000 would be \$90.

Vehicles received as gifts or inherited:

- If you can provide proof that the person who gave you the vehicle paid sales or use tax on the vehicle, no use tax is due.
- If the person who gave you the gift owned the vehicle for 7 years or more and is from a state or province with sales tax, it will be assumed that tax was paid and no proof is needed.
- If the vehicle is coming from a state or province without sales or use tax, use tax is due.

Gifts of vehicles with liens and residuals:

Vehicles with outstanding loans that are gifted or inherited generally will not qualify. When a security interest is held by a third party, and the donee is required to assume the debt or pay off the loan, this is an outright sale. Tax would be due on fair market value.

Who do I contact if I have questions?

For current contact information and Department of Revenue field office locations please visit our website at <http://dor.wa.gov>. For immediate assistance, please call 1-800-647-7706.