



Colorado Automobile Dealers Association

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**\* \* \* IMPORTANT DEALER ALERT \* \* \***  
**Car Allowance Rebate System (CARS) Program Update**

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**TO:** CADA Members  
**FROM:** Tim Jackson  
**RE:** Car Allowance Rebate System (CARS), aka “Cash for Clunkers”:  
**\*\* COLORADO Sales / Use tax \*\***  
**DATE:** July 10, 2009

One of the questions asked regarding the new federal rebates available under the CARS / “Cash for Clunkers” program is how state sales/use tax rates should be applied. The Department of Revenue has issued the attached memo to address this question. In summary:

- The federal rebate **is** taxable – essentially this is treated like a manufacturer rebate, and does not reduce the purchase price for calculating sales/use taxes in Colorado
- Additional trade-in allowance given to the scrap value of the car **is not** taxable, and is considered just like other trade-ins

**REMINDER:** Please keep in mind that while the program dates are July 1<sup>st</sup> through November 1, 2009, the National Highway Traffic Safety Administration (NHTSA) still needs to finalize detailed rules and create an online system to implement this program.

Because key aspects of the implementation are not yet final, CADA does not recommend that dealers provide customers with credits based on an expectation of being reimbursed through a yet-to-be-defined process. For dealerships that choose to take the risk and provide rebates on deals that *could* ultimately not qualify, ensure you have reviewed all details possible of the parameters defined by the laws governing the program. One of those is that the dealer must “give the credit to the consumer at the time of such transaction.”

- Visit [www.coloradodealers.org](http://www.coloradodealers.org) – and select the CARS program quick-link.

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**Disclaimer:** CADA is not authorized to dispense legal or tax advice. Dealers and consumers are always advised to seek professional tax or legal counsel.

# STATE OF COLORADO

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**DEPARTMENT OF REVENUE**  
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Bill Ritter, Jr.  
Governor

Roxy Huber  
Executive Director

July 9, 2009

From: Steve Asbell, Taxpayer Service Division

To: County Motor Vehicle Department Personnel

CC: Maren Rubino, DMV Titles and Registration Operations Director  
Irene Gutierrez, DMV Titles and Registration Operations Manager

Re: Taxation of vehicles bought under the federal Car Allowance Rebate System

Recently signed federal legislation establishes the Car Allowance Rebate System, also known as the cash for clunkers program. The federal program establishes guidelines for trading in older vehicles that are not fuel-efficient. The buyer may then be eligible for a federal credit to be used toward the purchase or lease of a new, more fuel-efficient vehicle. The vehicle traded in must be crushed or shredded, although some parts may be salvaged. The engine and drive train cannot be salvaged.

Eligibility for the credit and the amount of credit are determined at the dealer under the federal guidelines. The credit allowed is applied toward the purchase or lease as partial payment, similar to a manufacturer rebate. The dealer will apply this credit in addition to other rebates or credits. The dealer is reimbursed by the federal government for this credit. This federal credit does not lower the purchase price or the amount subject to state and local sales tax.

If the dealer as part of the sales negotiations allows a scrap value for the vehicle being traded in, that scrap value can be considered a trade-in and is allowed as a deduction from the amount subject to state and local sales tax.