



Colorado Automobile Dealers Association

## **CAR ALLOWANCE REBATE SYSTEM (CARS) SUMMARY OF COLORADO TAX ISSUES**

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### **State of Colorado and All State-Collected Jurisdictions**

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 (DOR) has issued a 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.

*See Department of Revenue memo, July 9, 2009, from Steve Asbell, Taxpayer Services Division*

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### **Denver (Home-Rule city/county) Tax Department Response**

*Denver is just one of 65 home-rule counties, each home –rule may treat this differently.*

- Denver will tax the main federal rebate and the trade-in allowance the same as the state (above).
  - Denver *originally* indicated that the \$50 admin fee would be taxable, but that was if it was handled as part of the purchase price); HOWEVER, the final clarifications from NADA/NHTSA indicate that this \$50 is simply a “minimum” amount that dealers are able to retain from the “best estimate” of the salvage value. The actual trade-in value line-item on the contract will simply be the resulting value as negotiated by the consumer and dealer, within these other parameters. The \$50 is intended to be a starting minimum amount that dealers are able to retain, while the “best estimate” of the salvage value would be the starting maximum amount for the trade-in value, again subject to negotiation.
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### **Dealer to Recycler/Crusher Transaction on the Clunker/trade-in**

*The transaction between the dealer and the recycler/crusher for the actual salvage value amount would be treated as they typically are already: as wholesale, “resale” transactions that would not be subject to Colorado sales/use taxes.*

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