



# Special Notice

## Car Buyer's Bill of Rights to Take Effect July 1, 2006

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This notice is to inform you of a change in California law that applies to certain used vehicle sales. The change is included in the *Car Buyer's Bill of Rights* (Assembly Bill 68) and goes into effect July 1, 2006. While the law addresses many issues, this notice deals with the new requirements for a contract cancellation option and the Sales and Use Tax implications. If you have specific questions about the changes to the California Vehicle Code, contact the Department of Motor Vehicles (DMV) at <http://www.dmv.ca.gov/vehindustry/vehindustry.htm>.

### What do I need to know about this change in the law and how will it impact my sales and use tax responsibilities?

Beginning July 1, 2006, you must offer customers a contract cancellation option on certain used vehicle sales.<sup>1</sup> If a buyer chooses to purchase a contract cancellation option, the buyer will have the right to cancel the purchase and receive a full refund, including amounts charged for sales tax, under certain conditions. The specific requirements for returning the vehicle for a full refund must be shown on a separate agreement (see below). The full refund must also include any vehicle the buyer left with you as a down payment or trade-in. The portion of the sales price refunded to the purchaser under a contract cancellation option that meets all of the requirements in the Car Buyer's Bill of Rights is **not** subject to sales and use tax.

### Which vehicle sales are covered?

The new requirement applies only to sales of *used* vehicles with a purchase price of less than \$40,000, sold for personal, family, or household use. It does not apply to the sale of motorcycles, off-highway vehicles, or recreational vehicles.

### Can I charge for this option?

Yes. You can charge the customer for the cancellation option, up to a maximum defined by law (see table below). The maximum price of the option is based on the cash price of the vehicle.

Cash price <sup>2</sup> of vehicle	Maximum amount you can charge for cancellation option agreement
Up to and including \$5,000	\$75
\$5,000.01, up to and including \$10,000	\$150
\$10,000.01, up to and including \$30,000	\$250
\$30,000.01, but less than \$40,000	1% of the purchase price

If the customer purchases this option, the price of this option is **not** subject to sales and use tax.

<sup>1</sup> This does not apply to sales between private parties.

<sup>2</sup> The cash price of a vehicle, as defined by Civil Code Section 2982(a)(1)(A), excludes document preparation fees, business partnership automation fees, tax imposed on the sale, pollution control certification fees, prior credit or lease balance on property being traded in, service contract charges, theft deterrent charges, surface protection charges, optional debt cancellation agreement charges, and contract cancellation option agreement charges. Vehicle Code Section 11713.21(a)(2)(D) adds that cash price also excludes registration, transfer, titling, license, and California tire and option business partnership automation fees.

**What does the cancellation option agreement need to state?**

In addition to the names of the seller and buyer, a description of the vehicle purchased, and the vehicle VIN number, a cancellation option agreement must contain the following:

- The time period in which the buyer may cancel the purchase and return the vehicle. The deadline cannot be before your close of business on the second day after the day you deliver the vehicle to the customer. For example, if you deliver a car to a customer on Monday, the return deadline cannot be earlier than your close of business on the following Wednesday.
- The maximum number of miles the vehicle may be driven before it is returned under the agreement. The maximum may not be less than 250 miles.
- The buyer must pay any restocking fee if the buyer cancels the purchase (see below).
- The specific requirements for returning the vehicle for a refund (see below).

**Can I charge a restocking fee if a buyer returns the vehicle?**

You may charge a restocking fee based on the cash price of the vehicle. The restocking fee is **not** subject to sales and use tax.

Price of vehicle	Maximum restocking fee
\$5,000 or less	\$175
Between \$5,000 and \$10,000	\$350
\$10,000 or more	\$500

**What are the buyer’s responsibilities if the buyer chooses to cancel the purchase?**

The buyer must provide the following:

- A signed statement indicating that the buyer chooses to cancel the purchase of the vehicle.
- Any restocking fee specified in the contract cancellation option, less the cost the buyer pays for the contract cancellation option agreement.
- All documents originally provided to the buyer from the seller, including the vehicle purchase contract and the original contract cancellation option agreement.
- All original vehicle title and registration documents.

The vehicle must be returned in the condition in which it was sold, except for normal wear and tear. Also, the vehicle must not have been driven beyond the maximum mileage limit stated in the cancellation agreement.

**For more information**

If you have any questions regarding this notice, please call our Information Center at 800-400-7115 (TDD/TTY 800-735-2929). Staff are available from 8:00 a.m. to 5:00 p.m., Pacific time, Monday through Friday, except state holidays.

