



# Special Notice

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## Tax Exemption for Car Allowance Rebate System Issued by Federal Government

The Consumer Assistance to Recycle and Save Act of 2009 (CARS) establishes a rebate program that helps owners purchase or lease a new, more fuel efficient vehicle when they trade in a less fuel efficient vehicle. This program is often referred to as "Cash for Clunkers." The program is administered by the U.S. Department of Transportation, National Highway Traffic Safety Administration (NHTSA).

Rebates paid by the NHTSA to new car dealers under this program are considered sales to the United States Government. Sales tax does not apply to sales to the United States or its instrumentalities. The portion of the gross receipts from the sale or lease of a new vehicle paid by the NHTSA, by the use of the CARS rebate, is a nontaxable sale to the United States.

### Program overview

The CARS program was set up for consumers to trade-in their less fuel efficient vehicle and apply a rebate toward the purchase of a new, more fuel efficient vehicle. In order to qualify for the rebate, the trade-in vehicle must:

- Have been manufactured less than 25 years before the date of the trade-in.
- Have a "new" combined city/highway fuel economy of 18 miles per gallon or less.
- Be in drivable condition.
- Be continuously insured and registered to the same owner for the full year preceding the trade-in.

New vehicles, which may be acquired under the CARS program, must:

- Have a manufacturer's suggested retail price of not more than \$45,000.
- Achieve minimum combined fuel economy levels. For example, a new passenger automobile must have a combined fuel economy value of at least 22 miles per gallon (please see the program details for additional rules concerning MPG requirements).
- If leased, be leased for 5 years or more (if a rebate is claimed on a leased vehicle).

The rebate amount is either \$3,500 or \$4,500, depending on the vehicle type and the difference between the MPG of the new vehicle and trade-in vehicle. When a buyer trades in a qualifying vehicle, the new car dealer will credit the applicable amount against the cost of purchasing or leasing an eligible new vehicle and then apply to NHTSA for reimbursement. NHTSA will then reimburse the dealer for the amount of the rebate through an electronic funds transfer.



**Example of how sales tax applies to sales of vehicles**

A new car dealer sells a new fuel efficient SUV to a buyer for \$30,000. The buyer trades in a qualifying less fuel efficient SUV to the dealer. The CARS rebate on the trade-in is \$4,500. After deducting the CARS rebate, the selling price of the new SUV is reduced to \$25,500. Tax applies to the \$25,500 directly paid by the purchaser. The \$4,500 rebate is a nontaxable sale to the United States. If no rebate is issued, and the purchaser pays the full \$30,000, sales tax applies to the \$30,000 sales price.

**Example of how tax applies to lease of vehicles**

A new car dealer leases a new fuel efficient passenger vehicle to a customer for a contract period of 5 years. The customer trades in a qualifying less fuel efficient passenger vehicle to the dealer. The CARS rebate on the trade-in is \$4,500. The new car dealer elects to report tax based on rental receipts. Before applying the CARS rebate to the principle of the lease, the monthly rental payment amounts to \$350. After applying the CARS rebate to the principle of the lease, the monthly rental payment is reduced to \$300. Tax applies to the \$300 monthly rental payment.

The \$4,500 rebate, when applied to a lease to reduce the amount normally paid by the lessee, is considered a capitalized cost reduction. Generally capitalized cost reductions are taxable, however the CARS rebate is considered a nontaxable sale to the United States.

**More CARS Act information**

For more information about the CARS Act and program details, please go to [www.cars.gov](http://www.cars.gov), which provides information for both car buyer and dealers.

**Taxpayer Information Section**

If you have any questions regarding this notice, please call our Taxpayer Information Section at 800-400-7115 (TDD/TTY: 800-735-2929). Customer service representatives are available weekdays from 8:00 a.m. to 5:00 p.m. Pacific time, except state holidays.