

## ARIZONA DEPARTMENT OF REVENUE

### ARIZONA TRANSACTION PRIVILEGE TAX RULING TPR 96-1

This substantive policy statement is advisory only. A substantive policy statement does not include internal procedural documents that only affect the internal procedures of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules made in accordance with the Arizona administrative procedure act. If you believe that this substantive policy statement does impose additional requirements or penalties on regulated parties you may petition the agency under Arizona Revised Statutes § 41-1033 for a review of the statement.

#### ISSUE:

Used vehicle traded in on the purchase of a new vehicle.

#### APPLICABLE LAW:

Arizona Revised Statute (A.R.S.) § 42-1301.6 provides in part that "gross income" and "gross proceeds of sales" do not include "the value of merchandise traded in on the purchase of new merchandise when the trade-in allowance is deducted from the sales price of the new merchandise before completion of the sale."

A.R.S. § 42-1310.01 imposes the transaction privilege tax on the retail classification. The retail classification is comprised of the business of selling tangible personal property at retail. The tax base for the retail classification is the gross proceeds of sales or gross income derived from the business.

A.R.S. § 42-1310.11 imposes the transaction privilege tax on the personal property rental classification. The tangible personal property rental classification is comprised of the business of leasing or renting tangible personal property for a consideration.

Arizona Administrative Code (A.A.C.) R15-5-132.A provides that "[w]hen a retailer accepts tangible personal property as a trade-in for part or full payment on the sale of tangible personal property, the dollar amount represented by the trade-in is deductible from the retailer's gross receipts from that sale."

A.A.C. R15-5-132.B provides that the trade in allowance is limited to the gross receipts on the sale.

A.A.C. R15-5-110 provides that the gross income received from leasing tangible personal property under a lease purchase agreement is taxable under the personal property rental classification. Any payments received after the conversion from a lease to a purchase are taxable under the retail classification.

## RULING:

### Vehicle With a Lien Traded in on a New Vehicle Purchase

The presence of a lien on a vehicle being traded in on the purchase of a new vehicle does not affect the value of the trade-in. A lien represents a debt that must be paid, it is unrelated to the vehicle's value. Therefore, the entire value of the used vehicle is allowed as a reduction of the gross receipts from the new vehicle. However, the gross receipts from the sale cannot be less than zero.

#### Example:

John wants to buy a new car from XYZ Motors for \$30,000. John will be trading in his old pickup truck that is valued at \$10,000 and is subject to a \$9,000 lien. John will need to give XYZ Motors \$29,000 (\$9,000 to pay off the lien and \$20,000 for the new car). The tax base of the new car is \$20,000 (\$30,000 purchase price of the new car less \$10,000 for the value of trade-in = \$20,000).

### Leased Vehicle Traded in on a New Vehicle Purchase

An automobile dealer's customer cannot trade-in a vehicle that the customer does not own. Therefore, to trade-in a vehicle that has been leased, the customer must exercise the option to purchase prior to the trade-in. The exercise of the purchase option is a separate transaction from the trade-in. The lessor is subject to tax under the retail classification on the gross receipts from the customer exercising the purchase option. The automobile dealership is subject to tax on the sales price of the new vehicle, less the value of the vehicle traded in. However, the gross receipts from the sale cannot be less than zero.

#### Example:

Mary is buying a new automobile from Good Guy Motors for \$25,000. Mary wants to trade-in a leased automobile that the dealer values at \$10,000. The lease is held by Auto Leasing, Inc. and is subject to a purchase option of \$7,000. In order to trade-in the leased vehicle, Mary will have to exercise her option to purchase the vehicle. Auto Leasing, Inc. is subject to tax under the retail classification on the \$7,000 sale to Mary. Good Guy Motors is subject to tax on \$15,000 (purchase price less the value of the trade-in).

Paul Waddell, Acting Director

Date signed September 6, 1996

### Explanatory Notice

The purpose of a tax ruling is to provide interpretive guidance to the general public and to department personnel. A tax ruling is intended to encompass issues of law which are not adequately covered in

statute, case law or administrative rules. A tax ruling is a position statement which provides interpretation, details or supplementary information concerning the application of the law. Relevant statute, case law, or administrative rules, as well as a subsequent ruling, may modify or negate any or all of the provisions of any tax ruling. See GTP 96-1 for more detailed information regarding documents issued by the Department of Revenue.