



Sales and Use Tax Changes Affecting Motor Vehicle Dealers

Purpose: This Special Notice describes changes made to the sales and use taxes relating to motor vehicles during the 2011 legislative session.

Effective Date: Effective for sales occurring on and after July 1, 2011.

Statutory Authority: Conn. Gen. Stat. §12-407(a)(37), as amended by 2011 Conn. Pub. Acts 6, §92; Conn. Gen. Stat. §12-408(1), as amended by 2011 Conn. Pub. Acts 6, §93; Conn. Gen. Stat. §12-411(1), as amended by 2011 Conn. Pub. Acts 6, §97; Conn. Gen. Stat. §12-412(80), as amended by 2011 Conn. Pub. Acts 61, §60; Conn. Gen. Stat. §12-431, as amended by §61; and 2011 Conn. Pub. Acts 61, §183.

Tax Rates:

- Effective July 1, 2011, the general sales and use tax rate increases from 6% to 6.35%.
- Effective July 1, 2011, certain motor vehicles with a sales price of more than \$50,000 are subject to tax at the rate of 7%. (Please note that the 7% rate also applies to leases of motor vehicles. See the section entitled “*Valuation Rules for Determining Whether the 6.35% or 7% Tax Rate Applies*” below for more details.) The following motor vehicles, regardless of their sales price, are **not** subject to this tax rate:
 - Motor vehicles purchased by a member of the armed forces on full-time active duty, or their spouse, who is not a resident of Connecticut;
 - A motor vehicle with a gross vehicle weight rating over 12,500 pounds; **or**

- A motor vehicle with a gross vehicle weight rating of 12,500 pounds or less that is not used for private passenger purposes but is designed or used to transport merchandise, freight, or persons in connection with any business enterprise and issued a commercial registration or more specific type of registration by the Department of Motor Vehicles.

- Effective July 1, 2011, the tax on the rental or leasing of a passenger motor vehicle for a period of 30 consecutive calendar days or less increases from 6% to 9.35%. If the initial agreement for the lease or rental of a passenger motor vehicle is for a term of more than 30 days, the 6.35% rate (or the 7% rate for a motor vehicle with a value over \$50,000) applies to the entire term including the first 30 days. (**Note:** This sales and use tax rate increase does not affect the Tourism Account Surcharge or the Motor Vehicle Rental Surcharge, both of which remain in effect and unchanged.)
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New Taxable Services:

- Effective July 1, 2011, motor vehicle towing and road services are subject to sales and use tax. “Road services” are roadside assistance services, for example: jump starting, changing flat tires, or opening locked vehicles. Motor vehicle towing services include transporting a vehicle by flatbed but do not include the transportation of vehicles for motor vehicle dealerships’ inventories. Towing and road services are taxable when rendered to motor clubs, although membership fees paid to motor clubs remain nontaxable.
- Effective July 1, 2011, motor vehicle storage services, including storage of motor homes, campers, and camp trailers, are subject to sales and use tax.

Exemption Expanded: The exemption for special equipment installed in a motor vehicle for the exclusive use of a person with physical disabilities was expanded to apply to the portion of the sales price attributable to such equipment when a motor vehicle is resold.

Transitional Rules:

Sales of motor vehicles: Sales of motor vehicles made on or before June 30, 2011, are subject to the 6% rate. The new 6.35% sales and use tax rate will not apply to a sale of a motor vehicle under a binding sales contract without an escalator clause that was entered into prior to July 1, 2011, where delivery is made within 90 days after July 1, 2011.

Sales of motor vehicles with a sales price of \$50,000 or less made on or after July 1, 2011, are subject to the 6.35% rate.

Sales of motor vehicles with a sales price of more than \$50,000 made on or after July 1, 2011, are subject to the 7% rate.

Leases of motor vehicles: Lease payments due and owing on or before June 30, 2011, are subject to the 6% rate.

Lease payments due and owing on or after July 1, 2011, will be subject to tax at either 6.35% or 7%. In order to determine the applicable rate, please see the section below entitled "*Valuation Rules for Determining Whether the 6.35% or 7% Tax Rate Applies.*"

Short-term rentals of motor vehicles: As explained above, the tax on the rental or leasing of a passenger motor vehicle for a period of 30 consecutive calendar days or less increases from 6% to 9.35%. Where the rental of a passenger motor vehicle for a period of 30 consecutive days or less overlaps the effective date of the sales tax rate increase, the 6% rate applies to the portion of the rental term occurring on or before June 30, 2011, and the 9.35% rate applies to the portion of the rental term occurring on or after July 1, 2011.

EXAMPLE: On June 28, 2011, an individual enters into a five-day rental agreement with a car rental company for a passenger motor vehicle. The sales tax rates apply to this rental as follows:

- The gross receipts attributable for the rental days of June 28, 29, and 30 are subject to sales and use tax at the 6% rate; **and**

- The gross receipts attributable for the rental days of July 1 and 2 are subject to sales and use tax at the 9.35% rate.

Valuation Rules for Determining Whether the 6.35% or 7% Tax Rate Applies:

Trade-In Allowance: As explained above, a motor vehicle with a sales price exceeding \$50,000 will be subject to tax at the rate of 7% starting July 1, 2011. Please be advised that, as provided in Conn. Gen. Stat. §12-430(4), the sales price of a motor vehicle is not changed or otherwise impacted by a trade-in, but instead is adjusted by the amount allowed for a trade-in. If the sales price of a motor vehicle exceeds \$50,000 prior to the application of a trade-in; the transaction is subject to tax at the rate of 7%.

Extended Warranties: Please note that all sales of extended warranties are taxable at 6.35% regardless of the \$50,000 threshold.

Leases of Motor Vehicles: After consultation and discussion with the Connecticut Automotive Retailers Association, the "agreed upon value" as it appears in lease agreements will dictate the applicable sales tax rate. To the extent that the "agreed upon value" exceeds \$50,000, lease payments due and owing on or after July 1, 2011, will be subject to tax at the rate of 7%.

It is Department of Revenue Service's understanding that the "agreed upon value" as it appears in lease agreements includes taxable items such as acquisition fees, transportation fees, origination fees, as well as any optional charges, all of which would be taken into account in determining the sales price (and appropriate tax rate) of the vehicle if it were being sold.

The tax rate to be applied to the lease payments is determined based upon the "agreed upon value" as it appears in lease agreements regardless of whether the vehicle was purchased by the lessor as a new or used vehicle or whether it was purchased and used outside of Connecticut prior to relocating into Connecticut.

The "agreed upon value" of a motor vehicle as it appears in lease agreements has no bearing on the applicable tax rate if said vehicle is sold at the conclusion of its lease. The applicable rate will be based upon the sales price of the vehicle at the conclusion of its lease.

Commercial Leases of Motor Vehicles: In the case of a motor vehicle leased under a Terminal Rental Adjustment Clause (TRAC), the “sales price” is the amount paid by the lessor on its purchase of the vehicle to be leased. If the amount paid by the lessor exceeds \$50,000, then the lease payments are subject to tax at the 7% rate. If the amount paid by the lessor is less than or equal to \$50,000, then the lease payments are subject to tax at the general rate of 6.35%.

The tax rate to be applied to the lease payments is determined based upon the amount paid by the lessor on its purchase of the vehicle regardless of whether the vehicle was purchased by the lessor as a new or used vehicle or whether it was purchased and used outside of Connecticut prior to relocating into Connecticut.

Effect on Other Documents: None affected.

Effect of This Document: A Special Notice announces a new policy or practice in response to changes in state or federal laws or regulations or to judicial decisions. A Special Notice indicates an informal interpretation of Connecticut tax law by the Department of Revenue Services (DRS).

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (Connecticut calls outside the Greater Hartford calling area only); **or**
- **860-297-5962** (from anywhere).

Select **Option 6** to speak with a representative.

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Visit the DRS website at www.ct.gov/DRS to download and print Connecticut tax forms and publications.

Paperless Filing/Payment Methods (fast, easy, free, and confidential):

Business and individual taxpayers can use the **Taxpayer Service Center (TSC)** at www.ct.gov/TSC to file a variety of tax returns, update account information, and make payments online.

File Electronically: You can choose to get first-time filer information and filing assistance, or can log directly into the *TSC* to file returns and pay taxes.

Pay Electronically: You can pay taxes for tax returns that cannot be filed through the *TSC*. Log in and select the **Make Payment Only** option. Designate a payment date up to the due date of the tax and mail a paper return to complete the filing process.

DRS E-Alerts Service: Get connected to the latest news from DRS. Receive notification by email of changes to legislation, policies, and procedures. **DRS E-Alerts** provide information for employer’s withholding tax, News – Press Releases, and Top 100 Delinquency List. Visit the DRS website at www.ct.gov/DRS and select e-alerts from the left navigation bar.

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Towing and road services
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