

#14—MOTOR VEHICLES

(Selling, Leasing & Renting)

An Educational Guide to Sales Tax in the State of Idaho

This brochure is intended to help motor vehicle dealers, leasing companies, and their customers understand the sales tax laws that apply to their business. It applies only to the sale or lease of motor vehicles and certain trailers. Different rules apply to all-terrain vehicles, boats, snowmobiles, recreational vehicles, and airplanes (see Brochure #15 — RVs, Boats & Aircraft).

This information is based on the sales tax laws and rules in effect on March 1, 2010.

What is a vehicle?

A vehicle is any device, motorized or not, that can legally transport people or property on a public highway. A vehicle may be a bus, trailer, car, truck, pickup, motorbike, or any other device that can be operated legally on Idaho highways.

What is a motor vehicle?

A motor vehicle is a motorized device that can legally transport people or property on a public highway. Motor vehicles don't include vehicles without motors (e.g. trailers) or off-road equipment such as snowmobiles, ATVs, boats, and airplanes.

What should be taxed when I sell a motor vehicle?

Sales tax is calculated on the sales price. With some exceptions, the sales price is the total amount paid for the vehicle. Any service agreed to be provided as part of the sale must be included in the sales price. The following things are included in the taxable sales price:

- Transportation before the sale, including the cost to deliver the vehicle to the dealer.
- Federal excise tax imposed on the manufacturer or wholesaler before the retail sale.
- Documentation fees.
- Services provided by the dealer as part of the agreement to sell the vehicle, such as undercoating, custom paint jobs, interior and exterior protection treatments, and repairs required by the buyer as a condition of the sale.
- Warranties and service agreements that are mandatory; that is, the buyer is required to purchase the service as part of the sales agreement.

What items are not part of the taxable sales price?

Separately-listed items that aren't considered part of the sales price include:

- Title transfer fees.
- Optional warranties or service agreements.
- Federal excise tax on the retail sale, such as the federal tax on heavy tractor/ trailer units.
- Finance charges, carrying charges, or interest (except certain leased vehicles).
- Trade-in allowance.
- Manufacturers' rebates that aren't paid directly to the customer. (This rule applies only to motor vehicles.)

What qualifies for a trade-in?

Merchandise used as payment for other merchandise (often referred to as a trade-in) reduces the amount on which sales tax is charged. To qualify as merchandise, the item traded in must be customer-owned tangible personal property that the dealer will resell in the regular course of business. The trade-in usually is another vehicle. However, other items that meet the definition of "merchandise" also can be used (except manufactured homes). If the trade-in allowance equals or exceeds the price of the item sold, no sales tax is due.

When a leased vehicle is used as a trade-in on a new purchase or lease, the dealer can't give an allowance for the trade-in unless the customer has paid off the lease and paid Idaho sales tax on the buyout. However, if the residual buyout amount the lessee would pay for the vehicle is less than the amount the retailer would allow as a trade-in if the lessee actually owned the vehicle, then the taxable sales price is reduced by the difference between the total trade-in amount and the residual buyout.

What about manufacturers' rebates?

If a manufacturer's rebate on a motor vehicle is used either to reduce the sales price or make a down payment, the reduction is also allowed in determining sales tax. This applies only to motor vehicles. If the customer takes the money instead of applying the rebate to the price of the motor vehicle, the rebate amount can't be subtracted when determining the sales price.

Is the sale of a vehicle to a member of an Indian tribe exempt?

If a vehicle is delivered on an Indian reservation and the buyer presents proof of being an enrolled member of an Indian tribe, no tax is due. The buyer and seller must complete form ST-133, Sales Tax Exemption Certificate – Transfer Affidavit to document the exemption from sales tax.

Are sales of vehicles to Indian tribal councils taxable?

No. A sale made directly to a tribal council is exempt from sales tax, whether the sale takes place on or off the reservation. The tribe should give the seller a completed form ST-101, Sales Tax Resale or Exemption Certificate.

Can a vehicle qualify for the production exemption?

If a vehicle is required to be licensed, or the owner elects to license it for use on the highway, it doesn't qualify for the production exemption, regardless of how it's used. However, if the vehicle is used only off-road, and is directly and primarily used in the production process, it may qualify for the exemption. For example, a feedlot owner may buy a feed truck that will be used exclusively off-road to distribute feed to his cattle. A form ST-101 must be on file with the vendor to document the exempt sale.

Are military personnel exempt from sales tax?

No. Military members who buy a vehicle to use in Idaho must pay sales tax regardless of their state of residence. If they leave Idaho for a new duty station, they can claim the out-of-state exemption discussed next.

If I sell a vehicle for use outside Idaho, is it subject to Idaho sales tax?

Maybe not; it may qualify for an out-of-state exemption. To qualify, the buyer must be a nonresident and complete a form ST-104-MV (Sales Tax Exemption Certificate — Vehicle) stating that the vehicle:

- Will immediately be taken out of Idaho and titled and registered in another state or country; and
- Won't be required to be titled under Idaho law; and
- Won't be used in Idaho more than 60 days in any 12-month period.

A motor vehicle is considered to be stored or used here for a day when it's present in Idaho for more than 16 hours during any 24-hour period.

An Idaho resident who forms a limited liability corporation (LLC) or similar legal entity in another state to buy one or more motor vehicles doesn't qualify for the nonresident exemption.

What is the International Registration Plan (IRP) exemption?

If you're selling a motor vehicle with a maximum gross registered weight of more than 26,000 pounds or a trailer for use in interstate commerce, a sales tax exemption known as the IRP exemption is available if:

- The vehicle will be immediately registered under the IRP, or a similar pro rata plan, and
- At least 10 percent of your customer's total fleet mileage is traveled outside of Idaho.

Your customer must complete form ST-104-MV and acknowledge that, if the out-of-state mileage is less than 10 percent of the total fleet mileage, use tax will become due on the value of the trucks and trailers as of the last day of the registration period. If the customer has more than one IRP fleet, each fleet will be evaluated separately for the IRP exemption.

Does the IRP exemption apply to repair parts or other items bought by interstate truckers?

No. The exemption applies only to purchases of trucks, buses, and trailers, not their repair or maintenance. However, the sale of a glider kit isn't taxable when it's used to assemble a glider kit vehicle that will be registered under the IRP and is part of a fleet with at least 10 percent of its miles outside of Idaho.

Do leased trucks, buses, and trailers qualify for the IRP exemption?

The exemption applies only if the vehicle is registered or titled in the customer's name. A short-term lease doesn't qualify when the title remains in the name of the lessor.

Are vehicles taxable when sold to government agencies?

Federal government agencies, Idaho state agencies, and Idaho political subdivisions (such as counties or cities) are exempt from paying sales tax. Dealers must document exempt sales to federal agencies, either by keeping a copy of the government check or purchase order, or by getting a completed form ST-101 from the agency.

Dealers must also use a form ST-101 to document exempt sales made to Idaho government entities. Sales made to states other than Idaho or their political subdivisions aren't exempt from sales tax.

Are vehicles taxable when sold to nonprofit organizations?

Nonprofit organizations generally aren't exempt from paying sales tax. Some organizations, such as nonprofit hospitals and schools, are specifically exempt by Idaho law. Nonprofit organizations claiming an exemption from the tax must complete form ST-101 and give it to the vendor.

Are vehicles taxable when sold or transferred between related corporations?

Corporations generally aren't exempt from paying sales tax on the purchase of motor vehicles. Some corporate transactions may qualify for an exemption if a general sales/use tax was paid previously on the vehicle being sold/transferred, and the relationship between the seller and buyer meets certain qualifications. Form ST-133-CATS, Sales Tax Exemption Certificate – Capital Assets Transfer Affidavit, explains the exemption requirements and must be completed and provided when the vehicle is titled.

Is sales tax due when a vehicle is given as a gift or prize?

If the vehicle is a true gift — that is, there's no exchange of money, services, property, or indebtedness, and the relationship of the donor and recipient indicates a basis for a gift — then no sales tax is due when the vehicle is titled and registered. The donor should complete form ST-133, Section II and give a copy to the recipient of the gift. The donor should attach a second copy to the title application.

A dealer or other retailer who donates a vehicle that's part of a resale inventory owes use tax because the vehicle no longer qualifies for a resale exemption. A vehicle dealer, other retailer, or any person or entity that provides a prize owes Idaho tax. A retailer who takes the prize from a resale inventory owes use tax based on the cost of the vehicle. If cost can't be established, the wholesale book value should be used. The retailer should write its sales tax permit number on the title transfer. If the giver isn't a retailer, the giver should pay sales tax to the vendor when buying the prize. If the giver can't or doesn't pay Idaho sales tax to the vendor, the giver owes use tax.

Do dealers have to pay tax when loaning a vehicle to a nonprofit organization like a church or school?

Yes. Dealers must pay use tax, except when they loan vehicles to a driver education program sponsored by a nonprofit school. They may choose to pay tax either on the full purchase price of a vehicle, or on the fair market rental value for the time it's loaned.

Are dealers exempt from paying sales tax on a service or work vehicle?

Dealers must pay tax when they buy vehicles that aren't available for sale or rental. If a vehicle is part of the dealer's inventory and is put to a use for which a dealer's plate isn't authorized, use tax is due. The dealer may choose either to pay tax on the full purchase price of the vehicle, or on the fair market rental value for the time it's used.

What about demonstrators or other dealer-plated vehicles used by employees?

If federal income tax rules require the dealer to give the vehicle user a compensation form (Form 1099), the dealer must pay use tax on the amount shown on the form. The use tax is paid on the return for the month after the form is issued to the employee or owner.

When a dealer sells a vehicle, then later agrees to take it back, can he claim a refund or credit?

If dealers refund all a customer's money, they must also refund the sales tax. This is called a "rescinded sale." Dealers can claim a credit or refund for the tax on their next sales tax return. If, as a condition of reversing the original sale, the buyer is required to buy another vehicle, there isn't a rescinded sale. In this case, the vehicle taken back from the customer is treated as a trade-in.

If a dealer doesn't refund all of the customer's money, it may not qualify as a rescinded sale. Contact the nearest Tax Commission office to find out if any of the sales tax paid may be refunded to the customer.

If a vehicle is repossessed, can the dealer claim a sales tax refund?

Dealers can apply for a refund or credit if they ultimately bear the loss if the buyer defaults. The credit must be in proportion to the uncollected amount of the debt. It should be claimed on a dealer's sales tax return the month the bad debt adjustment is made on the books and records. To explain the credit, a dealer must either complete form TCR, Sales Tax Refund Claim, and attach it to the return or include a letter of explanation with the return.

A dealer who doesn't claim the credit may file for the refund on form TCR or by sending a letter to the Tax Commission within the next three years.

Is a vehicle rental or lease taxable?

Yes. However, vehicles held for lease or rental may be bought tax exempt.

When is sales tax collected on a lease?

The type of lease determines when a leasing company collects tax. Vehicle leases fall into three general categories:

- **Lease:** The vehicle is returned to the leasing company at the end of the lease. Sales tax is collected on each lease payment.
- **Lease with Option to Buy:** The customer makes regular payments and has the option to buy the vehicle during the term of the lease at a price that represents fair market value. Sales tax is collected on each payment. If the customer exercises the buyout option, sales tax also is collected on the buy-out or residual value.
- **Lease/Purchase:** At the end of the lease, title to the vehicle passes to the customer for no additional cost or for an amount that is less than a reasonable true value. Sales tax is due up front when the contract is executed, since this is actually a purchase agreement with a financing arrangement. Sales tax is calculated in the same way as if a dealer was selling the vehicle.

Does an out-of-state leasing company have to collect tax on a vehicle used in Idaho?

If Idaho law requires that the vehicle be licensed in this state, Idaho sales tax is due. The leasing company must get an Idaho sales tax permit before the vehicle can be registered in Idaho. In addition to filing sales tax returns, the leasing company also may be subject to Idaho income tax.

As a dealer, what do I pay tax on and what is exempt?

You can buy goods for resale without paying tax, such as vehicles for resale, lease, or rental, and non-warranty repair parts (for customer cars or cars in inventory). You can also buy repair parts for mandatory warranties or service agreements tax exempt. To document an exemption, you must complete form ST-101 for your supplier.

Examples of items you must pay tax on include:

- Office supplies
- Documentation forms
- Shop supplies (cleaners, rags, solvents, etc.)
- Promotional giveaway items
- Optional warranty repair parts

If you charge your customer for parts under any type of warranty or service agreement, you buy the parts tax exempt and must charge your customer tax on the sale. If your customer pays a deductible under terms of the warranty, sales tax doesn't apply to the deductible amount.

If repair work is sublet to another repair shop and you will charge your customer the tax, you can buy the sublet repair parts tax exempt by giving the other repair shop a completed form ST-101 for its records. If you are subletting work on an optional warranty or service agreement, pay sales tax to the repair shop.

For more information, read:

Brochure #2	Use Tax
Brochure #4	Retailers
Brochure #5	Retailers & Wholesalers: Making Exempt Sales
Brochure #10	Repair Shops
Brochure #11	Rental & Leasing Firms
Brochure #15	RVs, Boats & Aircraft
Rule 44	Trade-ins, Trade-downs and Barter
Rule 49	Warranties and Service Agreements
Rule 51	Discounts, Coupons, Rebates & Gift Certificates
Rule 63	Bad Debts and Repossessions
Rule 94	Exemptions on Purchases by Political Subdivisions, etc.
Rule 101	Motor Vehicles & Trailers Used in Interstate Commerce
Rule 106	Motor Vehicle—Sales, Rent, Lease
Rule 107	Motor Vehicle—Exemptions

For more information, contact:

- Idaho State Tax Commission: In the Boise area, 334-7660; Toll free, (800) 972-7660
- Hearing impaired: TDD (800) 377-3529
- **tax.idaho.gov**

This information was prepared by the Idaho State Tax Commission. It does not provide comprehensive explanations of Idaho tax laws or rules. Specific questions should be addressed to the Tax Commission or a qualified tax practitioner.