



ILLINOIS AUTOMOBILE DEALERS ASSOCIATION

SENATE BILL 58 FACT SHEET

RESTORE VEHICLE TRADE-IN CREDIT - WE SUPPORT



BACKGROUND

The Spring 2019 capital construction funding legislation included a provision that will cap the tax credit for a motor vehicle trade-in at \$10,000, beginning on January 1, 2020. Current law permits a tax credit equal to the full value of any property that is traded into a retailer selling property "of like kind and character". Starting January 1st, a customer who trades in a vehicle valued at over \$10,000 will not receive credit for the portion in excess of \$10,000. For example, a customer who trades in a vehicle valued at \$20,000 against the purchase of a new vehicle valued at \$36,000 currently pays tax on the \$16,000 difference. If the customer waits until January 1st to make that purchase, he or she will get a tax credit of \$10,000 for his or her \$20,000 vehicle, meaning that he or she will pay an additional \$625 in tax. Eliminating \$625 in tax credits is the equivalent of 2 monthly payments for many customers.

ANALYSIS

Franchised motor vehicle dealers collect approximately 17% of all sales tax revenue in Illinois. Reducing motor vehicle trade-in credits singles out one of Illinois' largest tax revenue generators, which will disturb the marketplace and, in addition to other negative impacts, will ultimately reduce State and local tax revenues.

- **Double taxation.** The current trade-in credit ensures that a vehicle customer pays sales tax only on the portion of a vehicle that he or she actually uses. Capping the trade-in credit cap will result in double taxation for many motor vehicle purchasers. A vehicle customer will pay tax when he or she purchases a vehicle and again when he or she sells it.
- **Reduce sales.** Capping the trade-in credit will increase the cost of new and used vehicles, leading many customers to delay purchasing their next vehicle. According to Department of Revenue figures, a 1% reduction in vehicle sales would reduce sales tax collections by \$17 Million per year and a 5% reduction in vehicle sales would reduce sales tax collection by \$85 Million per year.
- **Fewer vehicle protection products.** Higher costs will lead many customers to forgo the purchase of products like extended warranties or GAP contracts that would protect the customer from unexpected expenses.

SOLUTION

- **Parity.** Private sales of motor vehicles are taxed on a sliding, staircase scale, based on age and value of the vehicles. Compared to the retail sales tax rate of 6.25%, the tax imposed on private sales of motor vehicles is artificially low. The private sale of a used vehicle valued anywhere between \$15,000 and \$19,999 is subject to a tax of \$750, or between 3.75% and 5% of its value. If that same vehicle was sold by a dealer, the customer would pay between \$937.50 and \$1,250.
- **Revenue Neutral.** A modest increase in the Private Party Vehicle Use Tax would replace the revenue expected to be generated by capping the motor vehicle trade-in credit. Increasing the Private Party Vehicle Use Tax by \$75 for vehicles valued at less than \$15,000 and by \$100 for vehicles valued at \$15,000 or more would generate \$47 Million in additional annual tax revenue and still leave the tax rate on private party transactions lower than the State's 6.25% tax rate that dealership customers pay.
- **Reduce Fraud/Increase Safety.** Unlike private parties, motor vehicle dealerships are highly regulated. Private party motor vehicle sales are not vigorously audited by the Secretary of State or the Illinois Department of Revenue, making it more likely that the purchase price of private party transactions will be under-reported, in some cases fraudulently, depriving the State of tax revenue. Before reselling a traded-in vehicle, dealers inspect, repair, and recondition those vehicles, and dealers are statutorily required to provide a used vehicle warranty. Plus, motor vehicle dealers are required to perform safety recall repairs, which are often overlooked by private parties. The extra steps that dealers take make their used vehicles safer and more valuable than vehicles sold by private parties. Making the field slightly more level will encourage vehicle owners to trade their vehicles in to dealerships who will report the price more accurately and who will thoroughly inspect, repair, and recondition the vehicle before reselling it.
- **Local Governments.** Local governments receive a portion of the sales tax revenue from dealership used vehicle sales, but do not receive any tax revenue from private sales of used vehicles. Dealership sales help your municipality's bottom line.

COMMENTS

The Illinois Automobile Dealers Association, the Chicago Automobile Trade Association, American Automobile Leasing Association, the Alliance of Automobile Manufacturers, General Motors, Ford Motor Company, the Peoria Metro New Car Dealers Association, the Illinois Motorcycle Dealers Association, the Illinois Credit Union League, and the Community Bankers Association of Illinois support restoring the Motor Vehicle Trade-in Credit. For more information, please contact Joe McMahon, Larry Doll, or Pete Sander at (217) 753-0220.