



STATE OF CONNECTICUT

DEPARTMENT OF REVENUE SERVICES



Numerous Tax Changes Affecting Motor Vehicles

- General Sales Tax Rate Increases from 6% to 6.35%
- New 7% Sales Tax Rate Applies to Certain Motor Vehicles
- Sales Tax Rate for Motor Vehicle Rentals Increases from 6% to 9.35%
- Motor Vehicle Storage Services Are Subject to Sales Tax
- Motor Vehicle Towing and Road Services Are Subject to Sales Tax
- Exemption for Equipment for Persons with Physical Disabilities Is Expanded

The 2011 regular session of the Connecticut General Assembly ended June 8, 2011 and numerous changes were made to Connecticut's tax laws. Many changes take effect July 1, 2011 and the Department of Revenue Services (DRS) is in the process of making the general public aware of these changes.

The DRS also recognizes that retailers need to be made aware of these changes. As part of this process, the DRS is coordinating with various industry groups and trade associations, as well as making direct mailings, to disseminate targeted information about the recently enacted legislative changes.

The information summarized below is directed to members of the Connecticut Automotive Retailers Association. Recognizing that most of the changes described herein take effect on July 1, 2011, this notice also provides transitional rules and other guidance that may be relied upon by retailers.

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 having a gross vehicle weight rating over 12,500 pounds, or
 - a motor vehicle having 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%. (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.)

New Taxable Services:

- Effective July 1, 2011, motor vehicle towing and road services are subject to sales and use tax.
- 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 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.
- 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."*
- 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. Please see the following example.

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;

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. Therefore, 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%.

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. Therefore, 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 the Department’s understanding that the “agreed upon value” 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.

Please note that the “agreed upon value” of a motor vehicle 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.

Commercial Leases of Motor Vehicles: Please note that the rules described above do not apply to commercial leases of motor vehicles. The Department will issue separate guidance specific to commercial leases.

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

DRS recently issued a publication providing a general overview of all tax changes made by the General Assembly and will soon issue more detailed publications regarding specific tax changes. You are encouraged to regularly check the DRS website at www.ct.gov/DRS for updates and to sign up for e-alerts or follow us on Twitter to have information sent directly to your email.

Contact the DRS Taxpayer Services Division at (800) 382-9463 (Connecticut calls outside the greater Hartford area) or (860) 297-5962 (from anywhere) for more information.