



ILLINOIS AUTOMOBILE DEALERS ASSOCIATION
SENATE BILL 2481
SENATOR MUÑOZ
RESTORE VEHICLE TRADE-IN CREDIT - WE SUPPORT



BACKGROUND

As of January 1, 2020, the tax credit for a motor vehicle trade-in has been capped at \$10,000. Prior to January 1, 2020, a customer who traded in a motor vehicle was entitled to a tax credit equal to the full value of the vehicle. Now, a customer who trades in a vehicle valued at over \$10,000 does not receive credit for the portion of trade-in value that exceeds \$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 used to pay tax on the \$16,000 difference. Now that same customer's tax credit is limited to \$10,000 even though his or her vehicle was worth \$20,000, meaning that he or she must pay an additional \$625 in tax. That additional \$625 in tax 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 will disturb the marketplace as customers alter their purchasing behavior, which will ultimately reduce State and local tax revenues.

- **Double taxation.** Restoring the credit for the full value of a trade-in will ensure 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 has resulted in double taxation for many motor vehicle purchasers. A vehicle customer pays tax when he or she purchases a vehicle and again when he or she sells it.
- **Reduce sales.** Capping the trade-in credit increases 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.

SOLUTION

- **Parity.** Private sales of motor vehicles are taxed on a sliding, stairstep 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 the cap on motor vehicle trade-in credits. 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.**
- **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 for Automotive Innovation, 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.