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**DEPARTMENT OF REVENUE  
POLICY AND RESEARCH**

**Sales Tax Guidelines: How Kansas Motor Vehicle Dealers Should Charge  
Sales Tax on Vehicle Sales**

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***Tax Types: Sales and Use Tax Document Number: EDU-31A***

Department of Revenue guidelines are intended to help you become more familiar with Kansas tax laws and your rights and responsibilities under them. While every attempt is made to provide you with information that is consistent with the Kansas tax laws, nothing in this publication supersedes, alters, or otherwise changes Kansas case law or any Kansas statute or regulation. Department guidelines are not legal rulings and any information that is inconsistent with Kansas law is not binding on either the department or the taxpayer. Not every potential tax situation is covered in these guidelines. If you have any questions about how Kansas sales and use tax laws apply to your business, please visit the department's Policy Information Library on our web site, [www.ksrevenue.org](http://www.ksrevenue.org), or call the department's Taxpayer Assistance Center at 1-785-368-8222.

**Application of this publication.** Kansas law requires anyone who sells five or more vehicles during a calendar year to obtain a Kansas vehicle dealer license and register to collect sales tax on their motor vehicle sales. This publication explains how registered dealers should bill sales tax to their customers on taxable sales, and how they should report the tax on their sales tax returns. It does not contain a detailed discussion of vehicle leasing, exempt sales, sourcing, taxation of repair services and parts sales, the Kansas vehicle rental excise tax, and other things that are important to a dealer's sales tax reporting. The department publications listed at the end of this one explain the recordkeeping requirements for dealers who honor exemption claims made by purchasers, including governmental agencies, exempt entities, other dealers as sales for resale, and common carriers.

Because of its limited scope, this publication should be read along with the other department publications that discuss taxation of motor vehicle sales and leases. These include Publication KS-1526, *Sales and Use Tax for Motor Vehicle Transactions*; Publication EDU-32A, *Sales Tax Guidelines: How Kansas Motor Vehicle Dealers and Leasing Companies Should Charge Sales Tax on Vehicle Leases*; Publication KS-1510, *Kansas Sales and Compensating Use Tax*;

Publication KS-1520, *Kansas Exemption Certificate*; Notice 09-05, *Manufacturer's rebate on the purchase or lease of new motor vehicles*; and Notice 09-10, *Cash for Clunkers a/k/a Car Allowance Rebate System (CARS)*.

**Legal terms used in this publication.** In Kansas, the measure subject to sales tax is the "sales or selling price" of the taxable goods or services being sold at retail. *K.S.A. 2008 Supp. 79-3602(ll)*. The "sales or selling price" that a retailer charges is the same amount as the "purchase price" that the customer pays. *K.S.A. 2008 Supp. 79-3602(ee)*. It includes any shipping charges that the seller bills to the buyer. This amount is the "tax base" that is multiplied by the tax-rate percentage to determine the amount of tax to charge, collect, and remit to the state. The term "gross receipts" generally refers to the sum of all of the sales receipts in a reporting period. For simplicity, these guidelines will use the term "selling price" or "tax base" unless the context requires otherwise. *Compare K.S.A. 2008 Supp. 79-3602(o) with K.S.A. 2008 Supp. 79-3602(ee) and K.S.A. 2008 Supp. 79-3602(ll)*. "Sales tax" and "tax" will refer to the state and local sales or use tax that is lawfully owed. "Motor vehicle" or "vehicle" will refer to any self-propelled vehicle other than a motorized bicycle that is required to be licensed for road use under Chapter 8 of the K.S.A.'s. This includes cars, vans, pickups, trucks, truck-tractors, motor homes, and motorcycles. "Sales contract" means the contract of sale.

**Reporting trade-in allowances on returns.** Historically, the Kansas sales tax act treated a trade-in allowance as a payment being applied to the purchase of another vehicle. *See 1935 Kan. Sess. Laws Chap. 374, Sec. 1(h)*. While dealers did not collect sales tax on this trade-in "payment," dealers completed their returns by including the trade-in amount in their gross receipts and then, on another line, subtracting out the same amount as the trade-in allowance. *See Form ST-36, Part II, Line B*.

In 2003, this accounting requirement ended when Kansas adopted the Streamlined Sales Tax definitions. *2003 Kan. Sess. Laws Chap. 147, Sec. 5*. Dealers now may include the selling price that they charged to their customer in their report of gross receipts. This amount is already reduced by any trade-in allowance that was agreed to. *See K.S.A. 2008 Supp. 79-3602(ll)(2)(D)*. This means that dealers are no longer required to add back trade-in allowances when they report their gross receipts only to deduct the same trade-in allowances on Part II, Line B of their sales tax return.

Because the current reporting practice has been in place for more than a half a century, motor vehicle dealers may elect to either report trade-in payments as discussed in the preceding paragraph or continue to report the "trade-in" payments as part of their gross receipts on one line of their return and then subtract out the same amount on Part II, Line B of their return. *See Form ST-36, Part II, Line B*. The only prohibition is that dealers may not take a trade-in reduction twice.

**Recent changes in sales taxation of motor vehicle sales and leases. (a) Manufacturer's rebates are now subject to tax.** From July 1, 2006 through June 30, 2009, *K.S.A. 2008 Supp. 79-3602(ll)(3)(E)* excluded manufacturer's rebates from the tax base for the sale or lease of a new motor vehicle if the rebate was assigned to the dealer during the purchase or lease negotiations. This provision effectively exempted the rebate payment to the dealer.

The 2009 Kansas legislature did not renew this provision. This means that beginning July 1, 2009, a manufacturer's rebate that is assigned to a dealer no longer reduces the amount of sales tax that the dealer charges and the customer pays on the purchase or lease of a new vehicle. *See Notice 09-05.*

**(b) Late payment and penalty charges for delinquent lease payments are considered to be part of a customer's charges for a leased vehicle and are subject to sales tax.** A charge to a customer for the late payment of a motor-vehicle lease installment is subject to sales tax. Sales tax should be charged on a late payment or penalty charge when the charge is billed to a lessee. An earlier version of EDU-32A incorrectly stated that a late payment or penalty charge that is billed to a lessee is not subject to Kansas sales tax.

**(c) The statute of limitations for sales tax refunds is now one year.** 2009 HB 2365 shortened the statute of limitations for sales and use tax refunds from three years to one year. Notice 09-07 explains how the department will implement this change.

**(d) Dealers should follow K.S.A. 79-3674 when claiming a bad debt deduction.** K.S.A. 79-3674 codifies how bad debts deductions may be claimed by retailers, including motor vehicle dealers. The department is in the process of adopting a new administrative regulation for bad debt deductions. The one-year statute of limitations for refund claims also applies to bad debt deduction claims.

**(e) Cash for clunkers.** Recent Federal legislation provides a guaranteed trade-in allowance of \$3,500 or \$4,500 when certain qualifying motor vehicles are traded-in on the purchase of certain qualifying new motor vehicles between July 1, 2009 and November 1, 2009. The department will treat a Federal guaranteed trade-in allowance paid to a dealer in the same way that it treats other trade-in allowances, provided the requirements in the Federal legislation are met. The department's requirements for a trade-in allowance are discussed below in Section I(o), *Trade in Allowance*. How trade-in allowances are treated on sale tax returns is discussed in the preceding subsection, *Reporting trade-in allowances on returns*. The department's implementation of the "Cash for Clunkers" program is discussed in Notice 09-10. Additional information on the Federal program can be found at: [www.cars.gov](http://www.cars.gov).

**(f) Colorado dealers.** Colorado retailers, including motor vehicle dealers, will no longer receive a discount for the Kansas retailers' use tax they collect and remit on sales and leases. *See Notice 09-08.*

**I. SALES OF MOTOR VEHICLES. (a) Overview:** During purchase negotiations, the customer and vehicle dealer must reach a number of mutually agreeable decisions. These include which vehicle to buy, its price, a trade-in allowance if a used vehicle is being traded, how a manufacturer's rebate will be treated, whether an extended service agreement or vehicle accessories will be purchased, how much will be paid in cash or financed, lien-payoff amounts on a trade-in, and so forth. Once the parties reach a final agreement, the dealer will list the agreed-upon charges and credits on the sales contract as separate line-item amounts.

Some of the line-item charges are taxed if the sale of the vehicle is taxed. *See K.S.A. 2008 Supp. 79-3602(II)(1)*. Other charges are not subject to tax. *See K.S.A. 2008 Supp. 79-3602(II)(2)*. A trade-in allowance reduces the selling price of the vehicle. *See Reporting trade-in allowances,*

*above*. A dealer must know how to determine these different amounts to correctly arrive the selling price of the vehicle and the amount of sales tax to charge on the sale. How these determinations are made is explained in the Section II, *Definitions and Explanations*, below. How sales tax is figured in explained in the next subsection, *The sales contract*.

**(b) The sales contract.** Once all of the agreed-to amounts are entered on the sales contract, the dealer should review them to confirm that they meet the requirements that are discussed in Section II, *Definitions and Explanations*. Assuming the charges, fees, and credits all satisfy the definition requirements, the dealer should total the following separately-stated line-item charges and fees that have been entered on the sales contract:

- *Negotiated price of the vehicle.*
- *Preparation charges.*
- *Charges for repairs.*
- *Administrative service fees charged to recover dealer expenses.*
- *Charges for vehicle accessories.*
- *Charges for extended warranties.*
- *Charge for the Federal gas-guzzlers tax.*

After these taxable charges and fees are added together, the dealer should subtract the trade-in allowance from the total:

- *Trade-in allowance.*

This addition and subtraction yields the selling price, which is the amount that is multiplied by the sales-tax rate to determine the amount of sales tax to charge the customer and remit to the state.

When these two steps are followed, the itemized charges listed below will not be included as part of the selling price and will not be taxed:

- *Finance and interest charges.*
- *Registration fees, including title fees.*
- *Federal excise tax on trucks and trailers.*
- *Kansas tire tax.*
- *Mobility enhancing equipment.*
- *Insurance which benefits the buyer, including GAP insurance.*

As has been stated, all of these line-item amounts must satisfy the conditions set forth in Section II, *Definitions and Explanations*. If the prerequisites are not met, any line-item fee or charge that would otherwise be exempt becomes taxable. Similarly, potential discounts, credits, and allowances cannot be used to reduce the amount that is subject to tax if the prerequisites for them are not met.

In-state and out-of-state dealers that are registered to collect Kansas retailers' sale or use tax are required to collect tax on their taxable sales of motor vehicles to Kansas residents. Dealers cannot forego collecting retailers' sales or use tax and instruct their Kansas customer to pay the tax directly to the customer's county treasurer.

**II. DEFINITIONS AND EXPLANATIONS.** (a) *Accessory charges* are separately-stated charges for adding accessories to the vehicle being purchased. Accessories include such as bed liners, floor mats, trailer hitches, undercoating, and so forth. Accessory charges also include charges for services done to the vehicle, including pin striping, spray-on bed liners, etching VIN number on windows, Scotchgard, and other similar services or applications. When a purchase or lease agreement provides for the addition of an accessory to the vehicle, a dealers may bill the accessory as line-item charge or include the charge as part of the negotiated price of the vehicle. See *K.S.A. 2008 Supp. 79-3602(o)*; *K.S.A. 2008 Supp. 79-3602(ee)*; and *K.S.A. 2008 Supp. 79-3602(ll)*. Either way, a charge for the accessory is part of the vehicle's selling price and is taxed as such.

(b) *Administrative service fees* are charges that dealers make to recover their administrative costs, which can include but not are limited to: (1) processing trade-ins, including tracking lost or faulty titles and obtaining out-of-state or lender-held titles; (2) assisting the customer in securing a trade-in allowance; (3) assisting the customer in securing a manufacturers rebate; (4) assisting the customer in registering the vehicle and securing title; (5) developing alternate payment choices for the customer; (6) obtaining credit reports; and (7) creating and maintaining customer records. These different costs are often lumped together as a single, separately-stated charge on the sales or lease contract and are part of the taxable selling price of the vehicle.

(c) *Extended warranties and service contracts.* When an extended warranty or service contract is agreed to be purchased during the negotiations for the purchase or lease of a vehicle, the dealers may bill the cost of the warranty or service contract as line-item charge or include the cost as part of the negotiated price of the vehicle. *K.S.A. 2008 Supp. 79-3602(ll)*. Purchases of accessories, extended warranties, and service contracts that are agreed to during negotiations for the purchase or lease of a vehicle are part of the sales or lease agreement and may not be treated as separate sales transactions even when the charges are billed under a separate purchase contract.

An extended warranty or service contract agreed to during purchase or lease negotiations should not be taxed when the vehicle sale is exempt because the purchaser is a bona-fide resident of another state who claims the vehicle will be removed from Kansas within 10 days of its purchase.

Extended warranty and service contracts sold after a vehicle is sold or leased are taxable in Kansas. Their sale should be sourced to the dealership location, regardless of where the buyer resides. Road-hazard wheel and tire protection plans are taxed and sourced in the same way as an extended warranty.

(d) *Federal excise tax on heavy trucks and trailers* imposed by IRC Sec. 4051 is not part of the selling price and is not taxed if the amount of this Federal excise is separately stated on the sales contract. Kansas sales tax should not be charged on Federal or state tax that is legally imposed on the customer if the tax is itemized on the sales contract given to the customer. Compare this with (e) Federal gas guzzlers tax, *immediately below and K.S.A. 2008 Supp. 79-3602(ll)(1)(C)*.

(e) *Federal gas guzzlers tax* is included in the tax base, whether or not the gas guzzler's tax is itemized on the sales contract. The Federal gas guzzler tax, which is imposed by IRC Sec. 4064, is levied on automobiles that do not meet Federal standards set for fuel economy. The tax is imposed on the manufacturer or importer of the vehicle. Therefore, even when the Federal gas

guzzler tax is itemized on the customer's invoice, it must be included in selling price that is subject to Kansas sales tax. *Compare this with* (d), Federal excise tax on heavy trucks and trailers, *immediately above*; K.S.A. 2008 Supp. 79-3602(11)(1)(C).

**(f) Finance and interest charges** are itemized on the sales contract. These charges are not part of the selling price of a vehicle and are not taxed. K.S.A. 2008 Supp. 79-3602(11)(2)(B).

The term "finance charge" is commonly used interchangeably with the terms "interest" or "interest and carrying charges." Interest is the amount owed to a lender in return for the use of borrowed money. A carrying charge is a cost paid to a lender for carrying installment credit.

Dealers and their customers often negotiate: (1) for the sale of a motor vehicle; and (2) for financing that is secured from a third-party lender. When a vehicle is sold, its title is transferred to the customer and the finance company secures a lien on the title. For these transactions, the dealer is responsible for collecting and remitting sales tax on the full selling price of the vehicle, regardless of the financing terms. Finance and interest charges are not part of the selling price of the vehicle when:

- (A) The finance and interest charges, and any penalty and interest, are in addition to the negotiated price of the vehicle;
- (B) the charges are segregated in the dealer's records; *and*
- (C) the charges are separately stated on the sales contract.

A "seller-financed sale" means a sale in which the dealer collects all or part of the total consideration in periodic payments and retains a lien on the vehicle until all of the payments have been received. The finance charge is an additional dealer charge, usually in the form of interest, which is paid by the customer for the privilege of buying the vehicle in installments. Finance charges are not taxable if separately stated on the dealer invoice to the customer and segregated in the dealer's records. Penalty and late charges imposed for late payment of finance charges are not subject to sales tax if the finance charge and penalty are separately stated on the dealer invoice to the customer and are segregated in the dealer's records. Seller-financed sales do not include leases or sales where a third-party lender provides financing for the sale and places a lien on the vehicle.

**(g) Insurance charges** are nontaxable if:

- (A) The charge is shown as an itemized line-item charge on the sales contract;
- (B) the charge is for the purchase of insurance from an insurance company;
- (C) the customer has the option to either buy the insurance or procure other coverage; *and*
- (D) the customer is the real beneficiary of the policy.

When all four requirements are met, charges for insurance are not taxed because they are not part of the vehicle's selling price. Itemized charges for GAP insurance are not taxable because GAP insurance satisfies these four requirements.

As used here, "insurance" is a contract which promises to indemnify the vehicle buyer for loss or damage that result from perils outside of and unrelated to defects in the vehicle. Insurance

charges are part of the selling price if the policy's beneficiary is the dealer or a finance company (lender). Unlike charges for insurance, charges for extended warranties and service contracts that are agreed to during purchase or lease negotiations are treated as part of vehicle's selling price and are taxed when the vehicle sale is taxed. *See Subsection (c), Extended warranties and service contractors, above.*

**(h) *Itemized*** means that a charge is separately stated as a line-item amount on the sales contract.

**(i) *Manufacturer's rebate*** is the right to a payment that a manufacturer extends to the buyer for the purchase of one of its products. On an after July 1, 2009, a manufacturer's rebate that is payable to the lessee and assigned to the dealer is treated as a taxable payment to the dealer. This means that a manufacturer's rebate no longer reduces the selling price of a new vehicle or the amount of tax that a customer pays or the dealer collects on a vehicle purchase. *See Notice 09-05.*

**(j) *Mobility enhancing equipment*** that is installed pursuant to a written prescription from a licensed practitioner is not subject to sales tax. *K.S.A. 2008 Supp. 79-3606(r)*. For equipment to qualify for this exemption, it must be used to increase a person's ability to move from one place to another. Examples of such equipment include special hand controls and wheel chair lifts. To be exempt, the charge must clearly be for mobility enhancing equipment and must be stated as an itemized amount on the contract of sale.

Mobility enhancing equipment does not include motor vehicles, equipment on a vehicle that is generally used by persons with normal mobility, or equipment that is routinely installed on a vehicle by the vehicle manufacturer. This exemption does not apply to the sale and installation of a modified roof or doorway on a motor vehicle.

**(k) *Negotiated price*** means the price agreed upon by the parties during their negotiations for the vehicle. Price negotiations often start at the manufacturer's suggested retail price, which then is reduced by things like dealer advertised price reductions, dealer coupons, and buyer-negotiated discounts to arrive at the negotiated price. The negotiated price is listed as a line-item on the sales contract. It is the agreed upon price before any allowances are taken for a trade-in. The negotiated price is not reduced by up-front cash payments. *See K.S.A. 2008 Supp. 79-3602(II)(1)(A).*

**(l) *Preparation charges***, along with shipping and delivery charges, are part of a vehicle's selling price and are taxed if the vehicle sale is taxed regardless of whether or not the charges are itemized on the sales contract. *K.S.A. 2008 Supp. 79-3602(II)(1)(B) & (D)*. New car preparation charges include cleaning, removing protective shipping coverings and coatings, filling the gas tank, checking fluid levels, and other similar services or perks.

**(m) *Registration and title fees*** are charges that are collected by the dealer and paid over to the State or other government unit. Typically, the amount of these fees is fixed by law for registering and titling a vehicle with the State. When a dealer charges a customer for these fees, the fees must be itemized on the sales contract to be exempt. If they are not itemized, the fees are taxable.

Registration and title fees do not include additional dealer charges that are made to recover the expenses that the dealer incurs registering and titling the vehicle. Dealer charges made to recoup its expenses for processing the title or registration are administrative service fees and are taxed as such. *See (II)(c), Administrative Service Fees, above.*

**(n) Repair charges** done to a vehicle being purchased are taxed as part of the selling price of the vehicle, whether or not the charge is itemized on the sales contract. *K.S.A. 2008 Supp. 79-3602(II)(1)(B)*. When contracting with a muffler shop, body shop, or other repair shop for repairs that will be done to a vehicle that is held for resale, the dealer may claim a resale exemption for both the parts and services by providing the repair-service provider with a resale exemption certificate.

**(o) Trade-in allowance** means the value assigned by a dealer to a used vehicle taken in trade from a customer to reduce the selling price that the dealer charges to the customer for another vehicle. To be considered a trade-in, the vehicle being traded must be titled in the customer's name and applied to reduce the selling price of the vehicle being purchased. The trade-in must be arranged during the purchase negotiations for another vehicle. There are few maxims that can help dealers determine whether or not a transaction qualifies as a trade-in. These are:

(A) *You cannot trade-in something that you don't own.* This means that a lessee is not entitled to a trade-in allowance when it relinquishes a *leased* vehicle when buying another vehicle. The lessor, not the lessee, owns the vehicle. It also means that at least one co-owner's name must appear on both the title of the vehicle being traded and the title of the vehicle being purchased. A trade-in allowance is not allowed when a vehicle titled to a corporation is relinquished on a vehicle being purchased by a corporate officer.

(B) *The sale and the trade-in must be part of one transaction.* The trade-in allowance must be stated as an itemized line-item on the sales contract. A trade-in allowance cannot be given for insurance receipts that a customer assigns or pays to the dealer when purchasing a replacement vehicle. The customer's insurance receipts arise from a separate transaction that is not part of the negotiations for the vehicle purchase and the customer's contemporaneous trade-in of another vehicle. Similarly, a customer may not sell a vehicle, assign the buyer's payment to a dealer, and then claim that the payment should be treated as a trade-in allowance on a second transaction that involves the customer's purchase of another vehicle from the dealer.

(C) *A trade-in occurs only if the dealer intends to resell property being taken in trade-in its regular course of its business.* When a dealer trades a vehicle for services performed by a customer or for the customer's property that the dealer does not intend to resell in its regular course of business, a barter has taken place rather than a trade-in. Because there has been no trade-in, the vehicle's selling price is not reduced by the value of the services or property accepted by the dealer.

(D) *A lien on a trade-in vehicle does not reduce the trade-in allowance.* The presence of a lien on a vehicle being traded in does not affect the value of the trade-in.

(E) *The property being taken in trade must be placed in inventory and held for resale in the dealer's normal course of business.* A motor vehicle dealer may accept a boat and trailer or a motorcycle as a trade-in that reduces the selling price of another vehicle, if the dealer places the item that is being accepted as a trade in its resale inventory. Any property accepted in trade that the dealer uses or does

not intend to resell in the normal course of its business is treated as a payment by barter, rather than as a trade-in that reduces the selling price of another vehicle.

A customer who objects to dealer's denial of a trade-in allowance may use an ST-21 to apply directly to the department for a refund of the tax that the dealer collected on the trade-in amount.

**III. AFTER-THE-SALE EVENTS. (a) Dealer "buy-back" or "cash-back" settlements with a customer.** Occasionally a dealer, in order to resolve a dispute with a customer or in settlement of litigation, will buy a vehicle back from the customer or return a portion of the customer's purchase price. The amounts returned to the customer may be deducted from the dealer's taxable gross receipts if the original selling price was reported on a dealer's tax return, sales tax was paid on the receipts, and the dealer reimburses the customer for the sales tax that the customer paid on the portion of the purchase price being returned. A dealer may take the deduction in the current reporting period and is not required to file an amended return for the reporting period when the tax was originally remitted. *See Form ST-36, Part II, Line N, Other allowable deductions.*

**(b) Repayment to a customer made under the Kansas lemon law.** Notwithstanding any provision of the Kansas retailers' sales tax act, a motor vehicle manufacturer, manufacturer's agent, or authorized dealer may apply to the department for a refund or take a deduction during the current reporting period if a consumer returns a motor vehicle in accordance with K.S.A. 50-645, and amendments thereto, and is refunded the total amount that the consumer paid for the vehicle, including sales tax, less a reasonable allowance for the customer's use of the vehicle, which shall include the sales tax associated with that use allowance. The manufacturer, agent, or dealer must maintain records that clearly reflect the acceptance of the returned vehicle under K.S.A. 50-645 and amendments thereto, the amount of the refund, and the amount of taxes refunded.

**(c) Treatment of bad debts.** When a customer tenders a bad check to a dealer for taxable goods or services and the dealer is unable to collect all or part of the underlying liability, the dealer may claim a bad debt credit by following the requirements set forth in K.S.A. 2008 Supp. 79-3674. A dealer may claim a bad debt deduction when it reports sales tax only after the dealer has written the bad debt off for Federal income tax purposes. The department has drafted, and is in the process of adopting, a new administrative regulation that explains the required procedural steps that a retailer must take to claim a bad debt deduction on a sales tax return.

**(d) Title change after repossession.** When a dealer or a financial institution that qualifies under K.S.A. 2008 Supp. 79-3602(q)(1) repossesses a motor vehicle and then has the vehicle re-titled in its name, the title transfer is not subject to Kansas tax. The subsequent sale of the vehicle is taxable.

**(e) Additional local sales tax that a buyer may owe to its county treasurer.** A Kansas dealer that sells a vehicle to a Kansas resident is required to charge and collect the state and local sales tax in place at its dealership location. *See Notice 03-04, Exceptions to general "destination-based sourcing rules."* While this completes the dealer's sales tax collection responsibilities, a Kansas customer who resides in a taxing jurisdiction with a higher local sales tax rate than the dealer's will be required to pay additional local sales tax when it registers the vehicle with its county

treasurer. Tax will be assessed based on the difference between the higher local sales tax rate in place at the customer's residence and the lower sales tax rate that was in place at the dealership.

To avoid possible misunderstandings after the sale, a dealer may wish to advise the customer that additional local sales tax may be due when the customer registers the recently-purchased vehicle with its county treasurer. No local sales tax refund or credit is given if the customer resides in a taxing jurisdiction with a lower tax rate than that of the dealer.

**(f) Storage fees.** A storage fee charged for storing a vehicle after its sale or servicing is not subject to sales tax if the fee is separately stated and identified on the customer's invoice.

#### **IV. EXAMPLES OF HOW VEHICLE SALES ARE TAXED.**

**Example 1a – Sale:** Kansas Dealer is located in a taxing jurisdiction with a combined state and local sales tax rate of 6%. Dealer sells a Ford to P for \$12,000. Dealer should charge P \$720 in sales tax on the transaction. ( $\$12,000 \times 6\% = \$720$ ).

**Example 1b – Sale:** Kansas Dealer is located in a taxing jurisdiction with a combined state and local sales tax rate of 6%. Dealer and P negotiate P's purchase of a Ford for \$12,000. Dealer and P also negotiate an extended service agreement for the Ford costing \$500, floor and trunk mats for \$100, and a trailer hitch for \$400. Dealer should charge P \$780 in sales tax on the transaction. ( $\$13,000 \times 6\% = \$780$ ).

**Example 1c – Sale:** Kansas Dealer is located in a taxing jurisdiction with a combined state and local sales tax rate of 6%. Dealer sells a Ford to P for \$5,000. Dealer agrees to install a new exhaust system on the Ford and to have its wheels aligned before P takes delivery. P agrees to pay an additional \$500 for the exhaust system and alignment. Dealer should charge P \$330 in sales tax on the transaction. ( $\$5,000 + \$500 \times 6\% = \$330$ ).

**Example 2a – Trade-in:** Kansas Dealer is located in a jurisdiction with a combined sales tax rate of 7%. Dealer sells a Chevrolet to P for \$12,000. As part of the transaction, Dealer accepts the trade-in of a Buick valued at \$2,000. Dealer should charge P \$700 in sales tax on the transaction. ( $\$12,000 - \$2,000 \times 7\% = \$700$ ). The trade-in allowance reduces the selling price of the Chevrolet, which is the tax base of the transaction.

**Example 2b – Trade-in of two vehicles:** Kansas Dealer is located in a jurisdiction with a combined sales tax rate of 7%. Dealer sells a Chevrolet P for \$12,000. As part of the transaction, Dealer accepts the trade-in of a Buick valued at \$2,000, and a Ford valued at \$1,000. Dealer should charge P \$630 in sales tax on the transaction. ( $\$12,000 - \$3,000 \times 7\% = \$630$ ). The trade-in allowance, which extends to both the Buick and Ford, reduces the Chevrolet's selling price, which is the tax base of the sales transaction.

**Example 2c – Surrender of a leased vehicle:** P is the lessee of an automobile. Near the end of the lease term, P enters into an agreement to purchase a new vehicle for \$20,000 from a Kansas Dealer that is located in a 7% taxing jurisdiction. P lives in a 6% taxing jurisdiction. The residual buyout amount for the leased vehicle is ten thousand dollars (\$10,000). Dealer would allow \$10,000 trade-in allowance if P actually owned the vehicle. Dealer should charge \$1,400 in sales tax on the transaction. ( $\$20,000 \times 7\% = \$1,400$ ). No trade-in allowance is extended when a leased vehicle is surrendered to a motor vehicle Dealer.

**Example 2d – Surrender of a leased vehicle:** P is the lessee of an automobile from Leasing company. Near the end of the lease term, P enters into an agreement to purchase a new vehicle for \$20,000 from Kansas Dealer that is located in a 7% taxing jurisdiction. The residual buyout amount for the leased vehicle is ten thousand dollars (\$10,000). Dealer would allow \$12,000 trade-in allowance if P actually owned the vehicle. Dealer should charge \$1,400 in sales tax on the transaction. ( $\$20,000 \times 7\% = \$1,400$ ). No trade-in allowance is allowed when a leased vehicle is surrendered to a motor vehicle Dealer. The amount that the Dealer credits because the vehicle is valued at more than the residual buy out amount is treated as payment to the Dealer, which the Dealer must report as part of its gross receipts (\$20,000) from the sale of the vehicle.

**Example 2e – Surrender of a leased vehicle:** P currently leases a motor vehicle from Leasing Company. P wishes to buy a motor vehicle from Dealer. The value of the leased motor vehicle is \$12,000. Pay-off of the lease is \$12,000. Selling price of the new motor vehicle is \$20,000. Dealer pays Leasing Company \$12,000 for the leased motor vehicle, which Dealer will resell. P pays Dealer \$20,000 for the new motor vehicle. Leasing Company is not subject to Kansas sales tax on the sale of the leased motor vehicle to Dealer, provided Dealer gives Leasing Company a properly completed resale exemption certificate. The Dealer should charge \$1,400 in sales tax on the transaction. ( $\$20,000 \times 7\% = \$1,400$ ).

**Example 2f – Surrender of a leased vehicle:** P currently leases a motor vehicle from Leasing Company. P wishes to buy a motor vehicle from Dealer in a 6% taxing jurisdiction. Value of the leased motor vehicle is \$10,000. Pay-off of the lease is \$12,000. Selling price of the new motor vehicle is \$20,000.

Dealer pays Leasing Company \$10,000 for the leased motor vehicle, which Dealer will resell. P pays Dealer \$20,000 for the new motor vehicle and also pays Leasing Company \$2,000 for the difference between the value of the leased motor vehicle and the pay-off of the leased motor vehicle as settlement of the lease. Leasing Company is not subject to Kansas sales tax on the sale of the leased motor vehicle to Dealer, provided Dealer gives Leasing Company a properly completed exemption certificate claiming resale. However, Leasing Company must collect sales tax on the final payment of \$2,000 made by P in settlement of the lease. In addition, Dealer must collect \$1,200 in sales tax from P, based on its receipts of \$20,000 ( $\$20,000 \times 6\% = \$1,200$ ).

**Example 3a – Manufacturer rebate:** Kansas Dealer is located in a jurisdiction with a combined sales tax rate of 6%. Dealer sells a new Ford to P for \$20,000. As part of the transaction, P assigns its right to a \$3,000 manufacturer's rebate to the Dealer which the Dealer applies as an up front payment. Dealer should charge \$1,200 in sales tax on the transaction. ( $\$20,000 \times 6\% = \$1,200$ ). Beginning July 1, 2009, a manufacturer's rebate that is assigned to a dealer cannot be applied to reduce the selling price of a motor vehicle. All manufacturer's rebate are taxable, including those that assigned to a dealer at the time of sale and credited as payment toward the purchase price.

**Example 3b – Manufacturer rebate:** Kansas Dealer is located in a jurisdiction with a combined sales tax rate of 7%. Dealer sells a new Mercury to P for \$22,000. Dealer arranges financing for P. As part of the transaction, P assigns its right to a manufacturer's rebate of \$3,000 to Dealer and instructs Dealer to use it to pay the first installment payment owed to the finance company (lender). Dealer should charge \$1,540 in sales tax on the transaction. ( $\$22,000 \times 7\% =$

\$1,540). Beginning July 1, 2009, a manufacturer's rebates cannot be applied to reduce the selling price of any motor vehicle for any reason. All manufacturer's rebate are taxable.

**Example 3c – Manufacturer rebate:** Kansas Dealer, in a jurisdiction with a combined sales tax rate of 6%, sells a new Buick to P for \$23,000. GM, the company that manufactures Buicks, issues a \$3,000 rebate check to P, who deposits it in his bank account. Dealer should charge \$1,380 in sales tax on the transaction. ( $\$23,000 \times 6\% = \$1,380$ ). Beginning July 1, 2009, a manufacturer's rebates cannot be applied to reduce the selling price of any motor vehicle for any reason. All manufacturer's rebate are taxable.

**Example 4 - Two transactions:** Kansas Dealer, whose dealership is located in a jurisdiction with a combined sales tax rate of 6%, agrees as an accommodation to buy P's Ford for \$2,000 one week after P purchased another vehicle outright. Dealer sells the Ford for \$2,250 and then attempt to take a credit of \$2,000 as a trade-in amount. The Dealer may not claim a refund credit because the two sales are separate transactions. (*Dealer's sale to P and P later sale to the Dealer*). Similarly, P's sales contract may not be adjusted and reduced by \$2,000 because the two sales are separate transactions.

**Example 5 - Even trade:** Kansas Dealer sells a new Ford to P for \$20,000. As part of the transaction, Dealer accepts the trade-in of a three year old Lincoln valued at \$20,000. Because the value of the sale and trade-in are equal, there is no sales tax to report on the transaction. ( $\$20,000 - \$20,000 \times 6\% = 0$ ).

**Example 6 - Trade down:** Kansas Dealer sells a new Ford to P for \$20,000. As part of the transaction, Dealer accepts the trade-in of a two year old Lincoln valued at \$28,000. Dealer pays P \$8,000 in cash. Because the value of the trade-in exceeds the value of the vehicle being purchased, there is no sales tax to collect or report on the transaction. The Dealer does not receive a trade-in credit or other sales tax credit for its \$8,000 payment to the buyer.

**Example 7 – Assignment of insurance proceeds:** P purchased a new Ford truck from Dealer for \$25,000 and paid Dealer the correct amount of sales tax due on the transaction. ( $\$25,000 \times 6\% = \$1,500$ ). One week later, P's new truck is totaled in an accident. P returns to the Dealer and negotiates the purchase of an identical truck for \$24,000 and assigns its right to the insurance payments to the Dealer. Dealer should charge \$1,440 in sales tax on the replacement sale. The selling price of the replacement vehicle is not reduced because these are two separate transactions. (*Insurance receipts from first vehicle is one transaction and P's purchase of the replacement vehicle is another transaction*).

**Example 8 - Debt refinanced:** Kansas Dealer is located in a jurisdiction with a combined sales tax rate of 6%. Dealer negotiates the sale of a Volvo to P for \$25,000. Dealer arranges financing for P. As part of the transaction, P trades in a Ford that it owns that is valued at \$10,000 but which P still owes \$4,000 on. Dealer assumes a \$4,000 outstanding debt owed by P on the Ford, and adds the \$4,000 to the amount being financed. Dealer should charge P \$900 in sales tax on the transaction. ( $\$25,000 - \$10,000 \times 6\% = \$900$ ). The \$10,000 value assigned to the trade-in is not reduced because of the \$4,000 lien that is being financed along with the new vehicle purchase.

**Example 9 - Sale of a new vehicle to a used-car dealer:** Kansas customers sometime ask new-car dealers to sell a new vehicle to a used-car dealer in a jurisdiction with a lower sales tax rate. The customer and the used-car dealer anticipate that the used-car dealer can resell the new vehicle to the customer, thus avoiding paying sales tax at the higher rate in place at the new-car dealer's location. Because dealer licensing laws prevent used-car dealers from buying new vehicles for resale, such resale claim will result in Dealer fines for both the new-car dealer and the used-car dealer. In addition, dealers who enter into these arrangements may be held liable for the uncollected local sales tax plus any applicable penalties and interest.

**Example 10 - Seller financed sales:** When a dealer that uses accrual-basis accounting agrees to make a credit, conditional, or installment sale of a vehicle by extending its own credit or to otherwise finance the sale under a non-assignable agreement that does not involve a financial institution, the dealer may either: (a) remit tax on the full selling price at the time of the sale; or (b) pay tax on the total amount accrued during each reporting period. *See K.A.R. 92-19-3.* When a dealer that uses cash-basis accounting agrees to make a credit, conditional, or installment sale of a vehicle using its own credit or to otherwise finance the sale under a non-assignable agreement that does not involve a financial institution, the dealer may pay tax on the total collections made during each reporting period.

If the buyer defaults on the loan, no refund shall be paid if a cash-basis dealer remitted the tax due on its actual collections from the buyer. Such a dealer may not deduct any expense incurred repossessing the vehicle, for vehicle damage, or for any other expense. If a buyer defaults on a loan made by an accrual-basis dealer, the dealer may seek a refund of any taxes accrued and remitted to the department but not actually collected from the buyer. As with cash-basis dealers, no deductions are allowed for dealer collection expenses.

**Example 11 - Sales financed by a third-party:** When a dealer sells a vehicle on deferred payments, and the payments are or are intended to be covered by a negotiable note or by an assignable conditional sales contract in the dealer's normal course of business, the dealer shall remit tax on the total selling price of the vehicle and report it on its next return whether the dealer is on the cash or accrual basis. Sales tax shall be reported and remitted on the total selling price even if the tax exceeds the amount of one or more of the installment payments. Refunds shall not be paid to the dealer or to a financing institution if a buyer's deferred payments are secured by a negotiable note or by a assignable conditional sales contract regardless of any agreement between the dealer, manufacturer, or financing institution concerning the assignment of rights to a tax refund or other treatment to be accorded to potential tax refunds.

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The following publications are available free from the Kansas Department of Revenue. Obtain your copy by visiting our web site at [www.ksrevenue.org](http://www.ksrevenue.org), or by calling our voice mail Forms Request Line at 785-296-4937. While the Department of Revenue has discontinued printing some of these publications, all of them are available on our web site.

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- EDU-27, Sales Tax Guidelines for Fabricators
- EDU-28, Sales Tax Guidelines Businesses that Sell and Service Appliances and Electronic Products
- EDU-29, Sales Tax Guidelines for Contractor-Fabricators and Contractor-Manufacturers

- Pub. KS-1216, Kansas Business Tax Application
- Pub. KS-1500, North American Industry Classification System
- Pub. KS-1510, Kansas Sales and Compensating Use Tax
- Pub. KS-1520, Kansas Exemption Certificates
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