

The acceptance of trade-ins of like kind and character may be used to reduce a retailer's gross receipts from a retail transaction as described in the Department's administrative rules regarding trade-ins. See 86 Ill. Adm. Code 130.425 and 130.455. (This is a GIL.)

May 17, 2007

Dear Xxxxx:

This letter is in response to your letter received by our office on August 18, 2006, in which you request information. We apologize for the delay in responding to your inquiry. The Department issues two types of letter rulings. Private Letter Rulings ("PLRs") are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department's regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter ("GIL") is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at [www.tax.illinois.gov](http://www.tax.illinois.gov) to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

I have contracted with a company called ABC that provides vehicle lease calculations for multiple lenders throughout the state. They believe that a customer's payoff changes the amount of tax the customer should pay. I will try and explain with some examples.

\$10,000.00 Sale Price	\$10,000.00 Sale Price	\$10,000.00 Sale Price
<u>-\$5,000.00 Trade-In</u>	<u>-\$5,000.00 Trade-In</u>	<u>-\$5,000.00 Trade-In</u>
\$ 5,000.00 Difference	\$ 5,000.00 Difference	\$ 5,000.00 Difference
X 6.25%	+ \$ 3,000.00	+\$ 8,000.00 Payoff
<u>\$ 313.00 Tax Collected</u>	\$ 8,000.00	\$13,000.00
	<u>X 6.25%</u>	X 6.25%
	\$ 500.00 Tax Collected	\$ 813.00 Tax Collected

They would say the tax amounts in the above examples are correct. I need you to write and say the correct amount in all 3 examples is \$313.00 (assuming the 6.25% is correct).

I know there are a lot of other tax issues on rebates, doc fees, certain additional city, or county fees, but if you would just write to this one issue.

Does negative equity, (a person owes more on their vehicle than its worth) affect in any way the amount of tax we are to collect on behalf of the state?

**DEPARTMENT'S RESPONSE:**

The acceptance of trade-ins of like kind and character may be used by retailers to reduce their gross receipts from retail transactions as described in the Department's administrative rules regarding trade-ins. See 86 Ill. Adm. Code 130.425 and 130.455. As described in subsection (b)(1) of Section 130.455, the value of a traded-in vehicle is the amount assigned to the vehicle without regard for any outstanding debt owed on the traded-in vehicle by any party. See 86 Ill. Adm. Code 130.455(b)(1).

For example, if a vehicle dealer sold a vehicle for \$25,000 and the customer provided a trade-in valued at \$10,000 with an outstanding lien of \$8,000, the value of the trade-in would still be \$10,000. The retailer's gross receipts for that sale would be \$25,000 - \$10,000 (trade-in) = \$15,000 in taxable gross receipts.

I hope this information is helpful. If you require additional information, please visit our website at [www.tax.illinois.gov](http://www.tax.illinois.gov) or contact the Department's Taxpayer Information Division at (217) 782-3336. If you are not under audit and you wish to obtain a binding PLR regarding your factual situation, please submit a request conforming to the requirements of 2 Ill. Adm. Code 1200.110 (b).

Very truly yours,

Terry D. Charlton  
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TDC:msk