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Bulletin

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Change to Credit Allowed for Traded-In First Division Motor Vehicles

This bulletin is written to inform you of recent changes; it does not replace statutes, rules and regulations, or court decisions.

To: All registered Illinois motor vehicle dealers and persons who purchase motor vehicles out of state and register them in Illinois

For information or forms
Visit our website at:
tax.illinois.gov

Call us at:
1 800 732-8866 or
217 782-3336

Call our TDD
(telecommunications device
for the deaf) at:
1 800 544-5304

Public Act (P.A.) 101-0031 amends the Retailers' Occupation Tax Act and the Use Tax Act to redefine the "selling price" subject to Sales and Use Taxes for sales and purchases of motor vehicles when a customer trades in a first division motor vehicle. See 35 ILCS 120/1; 35 ILCS 105/2.

What is the new definition of "selling price"?

P.A. 101-0031 provides that, for sales and purchases of motor vehicles, "selling price" includes the value of or credit given for traded-in first division motor vehicles exceeding \$10,000. While trade-in credit for a first division motor vehicle can exceed \$10,000 to reduce the cost of the motor vehicle being purchased, for purposes of calculating Sales Tax or Use Tax due, the credit you can claim for a first division motor vehicle being traded in cannot exceed \$10,000.

When does this new definition take effect?

P.A. 101-0031 provides that this new definition of selling price shall take effect beginning January 1, 2020. Taxpayers must calculate the Sales Tax or Use Tax due using this amended definition for all sales and purchases made on or after that date. This includes sales that are reported on Form ST-556, Sales Tax Transaction Return, or Form ST-556-LSE, Transaction Return for Leases, and also includes purchases reported on Form RUT-25, Vehicle Use Tax Transaction Return, or Form RUT-25-LSE, Use Tax Return for Lease Transactions.

Note: Trade-in credit is not allowed on many transactions reported on Forms ST-556-LSE and RUT-25-LSE. Before you claim a trade-in credit on Form ST-556-LSE or Form RUT-25-LSE, you must be certain that you are allowed to claim this trade-in credit. See the applicable instructions for the return you are filing to determine when a trade-in credit is allowed.

What motor vehicles are subject to the \$10,000 trade-in credit limit?

P.A. 101-0031 imposes the trade-in credit limit on first division motor vehicles. The Illinois Vehicle Code provides that motor vehicles are divided into two divisions:

First Division: Those motor vehicles which are designed for carrying not more than 10 persons.

Second Division: Those motor vehicles which are designed for carrying more than 10 persons, those motor vehicles designed or used for living quarters, those motor vehicles which are designed for pulling or carrying freight, cargo or implements of husbandry, and those motor vehicles of the First Division remodelled for use and used as motor vehicles of the Second Division.

See 625 ILCS 5/1-146. First division motor vehicles generally consist of most standard passenger vehicles and include motorcycles. Pickup trucks are second division motor vehicles and, therefore, are not subject to the trade-in credit limit. If you are unsure how the vehicle that you intend to trade in is registered, contact the Illinois Secretary of State's office.

Am I still able to combine trade-in credits from multiple traded-in motor vehicles?

Yes. You may still combine credit from multiple first division motor vehicles being traded in for a single transaction, as long as the trade-in credit reported for the transaction on Form ST-556 or ST-556-LSE does not exceed \$10,000 per first division motor vehicle.

Note: Taxpayers filing Form RUT-25 or Form RUT-25-LSE also are able to combine credit from multiple first division motor vehicles being traded in for a single transaction, as long as the trade-in credit reported for the transaction does not exceed \$10,000 per first division motor vehicle. See the instructions for Form RUT-25-LSE for when trade-in credit is allowed.

Am I able to split credit from a traded-in vehicle on the purchase of multiple motor vehicles?

Yes. You may split credit for a single first division motor vehicle being traded in on multiple transactions, as long as the total combined trade-in credit reported for all transactions does not exceed \$10,000.

Do the changes from P.A. 101-0031 affect advance trade-in credit extended on a future purchase?

Yes, advance trade-in credit would be impacted for any sale occurring on or after January 1, 2020. Regardless of the amount of advance trade-in credit issued to a customer for a first division motor vehicle prior to January 1, 2020, for sales or purchases of motor vehicles on or after that date, the total credit claimed for that trade in cannot exceed \$10,000.

Is there a limit on the trade-in credit that can be taken for non-first division motor vehicles that are traded in?

No. P.A. 101-0031 only places a \$10,000 limit on traded-in first division motor vehicles.

If you are licensed to sell both first and second division motor vehicles and accept a second division motor vehicle as a trade in, you can claim the full value of the traded-in second division motor vehicle as a credit for purposes of calculating the tax due, but this credit may not reduce the tax below zero.

Where can I go for help?

The Illinois Department of Revenue's website at tax.illinois.gov is the best resource for up-to-date tax information. You also can call our Taxpayer Assistance Division at **1 800 732-8866** or **217 782-3336**, or call our TDD (telecommunications device for the deaf) at **1 800 544-5304**.