



## Trade-In Credit Limit Frequently Asked Questions

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These FAQ's are a supplement for Informational Bulletin FY 2020-1, Change to Credit Allowed for Traded-In First Division Motor Vehicles.

### What has changed with regard to the trade-in credit for Sales and Use Tax due on motor vehicles?

Effective January 1, 2020, [Public Act \(P.A.\) 101-0031](#) amended 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. Under this new definition, "selling price" includes the value of or credit given for traded-in first division motor vehicles exceeding \$10,000.

Beginning **January 1, 2020**, trade-in credit may not be taken for that portion of the value of or credit given for a traded-in first division motor vehicle of like kind and character as that being sold that exceeds \$10,000. What this means for motor vehicle dealers is that \$10,000 is the maximum credit the retailer may take on the applicable return (Form ST-556, Sales Tax Transaction Return, or Form ST-556-LSE, Transaction Return for Leases) to reduce the taxable selling price of a motor vehicle when that retailer accepts the trade in of a first division motor vehicle in the transaction, regardless of the value of or credit given for the trade in. This does not prohibit the retailer from reducing the price of the vehicle being sold by the value of or credit given for the traded-in motor vehicle. It only limits the credit the retailer may take on the return for that trade-in.

This trade-in credit limit also applies to taxpayers reporting Use Tax on motor vehicle purchases reported on Form RUT-25, Vehicle Use Tax Transaction Return, or Form RUT-25-LSE, Use Tax Return for Lease Transactions. These taxpayers can only claim a maximum trade-in credit of \$10,000 to reduce the taxable purchase price of a motor vehicle when that taxpayer has traded in a first division motor vehicle in the transaction, regardless of the value of or credit received for the trade in.

### Is this \$10,000 trade-in credit limit effective for motor vehicle sales and purchases made in December 2019 but reported on or after January 1, 2020, or is it effective only for motor vehicle sales and purchases purchased on or after January 1, 2020?

The \$10,000 trade-in credit limit applies to all sales and purchases made **on or after January 1, 2020**. This includes sales that are reported on Form ST-556 or Form ST-556-LSE and purchases reported on Form RUT-25 or Form RUT-25-LSE. For purposes of determining whether the sale is made on or after January 1, 2020, the date of sale is the date the motor vehicle is delivered to the purchaser.

**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 ten persons.
- **Second Division:** Those motor vehicles which are designed for carrying more than ten 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 remodeled for use and used as motor vehicles of the Second Division. See [625 ILCS 5/1-146](#).

### Items that are first division motor vehicles

As stated above, traded-in first division motor vehicles are subject to the \$10,000 limit on the trade-in credit. First division motor vehicles generally consist of most standard passenger cars. This includes most sport utility vehicles (“SUVs”) that are enclosed and designed primarily for passengers, regardless of whether the SUV is registered as a passenger vehicle, registered as a Class B vehicle under Section 3-815 of the Illinois Vehicle Code, or registered in some other way. In addition, devices requiring a certificate of title, such as all-terrain vehicles (“ATVs”) and off-highway motorcycles are first division motor vehicles. To aid in the determination of whether a traded-in motor vehicle is a first division motor vehicle, the following is a non-exhaustive list of first division motor vehicles:

- motor vehicles designed for carrying not more than ten persons, which includes motor vehicles designed as passenger vehicles but whose seats have been removed, such as a minivan with the seats removed (Note that this is in contrast to a motor vehicle that is designed for pulling or carrying property, freight, or cargo, such as a panel van, which is a second division motor vehicle.);
- SUVs designed for carrying not more than ten persons;
- motorcycles, both on-road and off-road; and
- ATVs.

### Items that are second division motor vehicles

Second division motor vehicles that are traded in are not subject to the \$10,000 limit on the trade-in credit. Second division motor vehicles generally include open-bed vehicles, such as pickup trucks, and enclosed vehicles designed to carry cargo, such as panel vans. To aid in the determination of whether a traded-in motor vehicle is a second division motor vehicle, the following is a non-exhaustive list of second division motor vehicles:

- motor vehicles designed for carrying more than ten persons, including limousines, sport utility vehicles, transport vehicles, and any other passenger vehicle designed for carrying more than ten passengers;
- motor vehicles designed or used for living quarters, such as recreational vehicles;
- motor vehicles designed for pulling or carrying property, freight, or cargo (Note that this category includes open-bed vehicles, including, but not limited to, pickup trucks, even if the bed has been covered by a top of any kind, and side by side vehicles, also known as UTVs (utility vehicles), ROVs (recreational off-highway vehicles), and MOHUVs (multi-purpose off-highway utility vehicles), if they have an open bed, and even if the bed has been covered by a top of any kind, or are otherwise designed for carrying property, freight, or cargo. This category also includes enclosed vehicles typically used commercially, such as panel vans or cargo vans.);
- school buses, including vehicles of the first division used and registered as school buses; and
- ambulances, medical carriers, and hearses.

The following examples illustrate the trade-in credit allowed in various transactions:

#### Example 1

A motor vehicle retailer sells a new car for \$40,000 and allows \$30,000 for the trade in of a sport utility vehicle that seats eight passengers. Since a sport utility vehicle that seats eight passengers is a first division motor vehicle, the credit that the retailer may take on the return for the traded-in sport utility vehicle is \$10,000. The selling price used to calculate the tax due is \$30,000 (*i.e.*, \$40,000 – \$10,000).

#### Example 2

A motor vehicle retailer sells a new car for \$40,000 and allows \$30,000 for the trade in of a pickup truck. Since a pickup truck is a second division motor vehicle, the credit that the retailer may take on the return for the traded-in pickup truck is \$30,000. The selling price used to calculate the tax due is \$10,000 (*i.e.*, \$40,000 – \$30,000).

#### Example 3

A motor vehicle retailer sells a new motorcycle for \$30,000 and allows \$20,000 for the trade in of a motorcycle. Since a motorcycle is a first division motor vehicle, the credit that the retailer may take on the return for the traded-in motorcycle is \$10,000. The selling price used to calculate the tax due is \$20,000 (*i.e.*, \$30,000 – \$10,000).

#### **Example 4**

A motor vehicle retailer sells a new limousine for \$60,000 and allows \$30,000 for the trade in of a limousine that seats ten passengers. Since a limousine that seats ten passengers or less is a first division motor vehicle, the credit that the retailer may take on the return for the traded-in limousine is \$10,000. The selling price used to calculate the tax due is \$50,000 (*i.e.*, \$60,000 – \$10,000).\*

#### **Example 5**

A motor vehicle retailer sells a new limousine for \$60,000 and allows \$30,000 for the trade in of a limousine that seats 11 passengers. Since a limousine that seats more than ten passengers is a second division motor vehicle, the credit that the retailer may take on the return for the traded-in limousine is \$30,000. The selling price used to calculate the tax due is \$30,000 (*i.e.*, \$60,000 – \$30,000).\*

\*Examples 4 and 5 assume that the sale of the limousine is not otherwise exempt as a sale of an item for use as rolling stock to haul persons for hire in interstate commerce.

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

Yes. You may 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.

#### **Example:**

A motor vehicle retailer sells a new car for \$60,000 and allows \$50,000 for the trade in of two vehicles on the transaction: \$30,000 for the trade in of one first division motor vehicle and \$20,000 for the trade in of a second first division motor vehicle. The credit that the retailer may take on the return for the traded-in first division motor vehicles is \$20,000 (*i.e.*, \$10,000 for each 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.

#### **Example:**

A motor vehicle retailer sells two new cars to the same purchaser, each for \$7,000, and allows \$12,000 for the trade in of one first division motor vehicle. The aggregate credit that the retailer may take on both returns for the traded-in first division motor vehicle is \$10,000. The retailer may split the credit and apply it to each return (*e.g.*, \$5,000 to each return or \$7,000 to one return and \$3,000 to the other), but the credit may not exceed \$10,000 in the aggregate for both returns.

### **Does the \$10,000 trade-in credit limit affect advance trade-in credit extended on a future purchase?**

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 January 1, 2020, the total credit claimed for that trade in cannot exceed \$10,000. For purposes of determining whether the sale is made on or after January 1, 2020, the date of sale is the date the motor vehicle is delivered to the purchaser.

### **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.

## **Does the \$10,000 trade-in credit limit impact sales to non-resident purchasers?**

Yes. P.A. 101-0031 places a \$10,000 limit on the credit allowed for traded-in first division motor vehicles, regardless of the purchaser, but whether the limit applies depends upon whether the purchaser can claim an exemption as a resident of a reciprocal state. Residents of states other than Illinois may not claim the nonresident purchaser exemption on purchases of motor vehicles or trailers in Illinois that will be titled in a state that does not give Illinois residents a nonresident purchaser exemption on their purchases in that state of motor vehicles or trailers that will be titled in Illinois (*i.e.*, the other state offers no reciprocal exemption to Illinois residents). These states are referred to as non-reciprocal states. The \$10,000 trade-in credit limit applies in sales to nonresident purchasers from non-reciprocal states. See [ST-58, Reciprocal - Non-Reciprocal Vehicle Tax rate Chart](#), to determine whether another state is non-reciprocal with Illinois.

Note that motor vehicles leased to nonresidents using drive-away permits or transferring out-of-state vehicle registration plates will be exempt, regardless of the purchaser's state of residence. Therefore, the trade-in credit limit does not impact these transactions.

## **Where can I go for help?**

The Illinois Department of Revenue's website at [tax.illinois.gov](http://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.