



OLR RESEARCH REPORT

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TAX ON USED CAR SOLD PRIVATELY

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You asked how the sales and use tax is applied to the private sale of a used car. You were especially interested in why the tax is based on values listed in the National Automobile Dealers' Association (NADA) book rather than on the price listed in the bill of sale.

SUMMARY

When a person buys a car from someone who is not a car dealer, the private transaction is considered a "casual sale." In such a sale, the buyer must pay the required state tax on the transaction when he or she registers the car with the Department of Motor Vehicles. The tax due is called use tax rather than sales tax, but the tax rate is the same: 6.35% or 7% if the car's value is more than \$50,000.

Instead of relying on the price given on a bill of sale, the law requires the Department of Revenue Services (DRS) commissioner to adopt a regulation establishing an objective source for determining, for tax purposes, the value of cars bought and sold in such a casual sale. DRS has designated the NADA book as that source. Use of the NADA book value avoids the possibility of collusion between a buyer and seller to understate a car's price on the bill of sale in order to avoid use tax.

TAX ON CASUAL SALES OF MOTOR VEHICLES

When someone who is not a licensed motor vehicle dealer or lessor sells a car, it is considered a “casual sale.” In such cases, the seller does not have to collect sales tax on the transaction from the buyer and remit it to the state, as a car dealer would have to do. Instead, the buyer must pay use tax when he or she registers the car with the Department of Motor Vehicles (CGS § [12-431\(a\)\(1\)](#)).

The current law concerning use tax on casual motor vehicle sales was adopted in 1991 as part of the tax and budget act that established the personal income tax, among other things ([PA 91-3, June Special Session](#), § 155). The change took effect August 22, 1991 and applied to sales occurring on or after July 1, 1991.

DETERMINING TAX ON CASUAL MOTOR VEHICLE SALES

The law requires the DRS commissioner to adopt regulations on determining the use tax due in a casual motor vehicle sale. The regulation must specify (1) a book of motor vehicle values published by a nationally recognized organization and (2) the valuations in the book appropriate for casual motor vehicle sales. The law also requires DMV to use the book value to determine the tax due “regardless of the value placed on the motor vehicle at the time of purchase by the parties to such transaction” and “unless the purchaser can prove to the satisfaction of the commissioner that such value is incorrect” (CGS § [12-431\(b\)](#)).

DRS’ regulation took effect on April 28, 1992. It specifies that the book used for determining the total presumed purchase price for tax purposes is “the current month’s issue of the NADA *Official Used Car Guide, Eastern Edition*.” It also requires that the book value applied is “the average trade-in value, without allowance for any additions (such as for low mileage or optional equipment) or deductions (such as for high mileage or absence of certain equipment)” ([Conn. State Agency Reg., § 12-431\(b\)-1](#)).

JL:ts