

## Luxury Tax and Electric Vehicles

By: Terry Adams, Principal Analyst  
November 1, 2023 | 2023-R-0259

### Issue

Are electric vehicle (EV) sales subject to the state's "luxury tax"? How does the luxury tax threshold compare with the cap on eligibility for the Connecticut Hydrogen and Electric Automobile Purchase Rebate Program (CHEAPR)?

### Summary

Connecticut's luxury tax is a 7.75% sales and use tax rate that applies to specified items in lieu of the 6.35% general rate. It applies to motor vehicles that cost more than \$50,000, except as described below; jewelry that costs more than \$5,000; and clothing, footwear, and other specified items that cost more than \$1,000. In each case, the 7.75% rate applies to the entire sales price, not just the portion that exceeds the luxury tax threshold.

Although the law exempts certain motor vehicles from the luxury tax, it does not have any exemptions that are EV-specific, meaning EVs that exceed the \$50,000 threshold are subject to the tax unless they otherwise meet one of the below exemptions.

With respect to motor vehicles, the following are not subject to the luxury tax, regardless of their sales price:

- motor vehicles purchased by nonresident armed forces members on full-time active duty in Connecticut or their spouses (these purchases are taxed at a 4.5% rate);
- motor vehicles with a gross vehicle weight rating exceeding 12,500 pounds; or

- motor vehicles with a gross vehicle weight rating of 12,500 pounds or less that are designed or used for commercial purposes and for which the Department of Motor Vehicles issued a commercial or more specific type of registration ([CGS §§ 12-408\(C\) & \(H\)](#) & [12-411\(C\) & \(H\)](#)).

The current price cap on eligibility for state EV incentives through [CHEAPR](#) is nearly identical to the luxury tax threshold. Specifically, for FYs 23-27, EVs must have a base manufacturer's suggested retail price (MSRP) of \$50,000 or less to be eligible for purchase incentives through the program ([CGS § 22a-202\(d\)](#)). This is the same amount as the luxury tax threshold, except that the latter applies to the sales price rather than the MSRP.

OLR Report [2022-R-0182](#) provides more information about CHEAPR.

TA:kl