New York State Department of Taxation and Finance
Taxpayer Services Division
Technical Services Bureau

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Sales Tax
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Taxable Use of Motor Vehicles Held for Sale by Motor Vehicle Dealers
Articles 28 and 29 of the Tax Law

This memorandum illustrates the tax consequences of the use of motor vehicles held in a car dealer's inventory.

Vehicles held in inventory exclusively for resale, but used for purposes of demonstration to prospective customers are not taxable to the dealer if used solely for demonstration purposes.

Vehicles held in inventory exclusively for resale, but used occasionally for business or pleasure by the dealer or one of his officers or employees are subject to use tax. The use tax due must be reported under "purchases subject to use tax" and paid with the dealer's next return.

Since no purchase, sale, or trade occurs when the taxable use begins or ends, and since a particular vehicle in inventory will usually be used in this manner for only a short period* of time before being sold, dealers are required to pay tax based on depreciation, in lieu of tax normally due on a sale.

The rate of depreciation is 2% per month or any part thereof, computed on an amount equal to the total invoiced cost to the dealer (including delivery) for any vehicle purchased new; and on the purchase price or trade allowance, plus the value of any repairs made to the vehicle when purchased used or taken in trade.

Example 1: A car dealer purchases a new truck for $15,000 plus $600 delivery charge for a total cost of $15,600. Tax due on the transaction is computed by multiplying $15,600 (cost), x 2% (depreciation), x the number of months used, x the appropriate tax rate. If the truck is used for 2 months, and the tax rate is 7%, the tax due on the use is computed as follows:

$15,600	(cost)
x 2%	(depreciation)
$312	
x2	(months used)
$624	
x 7%	(tax rate)
$43.68	(tax due)

Example 2: A car dealer purchases a used automobile for $5000 and refurbishes it at a cost of $1500; he uses the automobile 3 months before selling it. If the appropriate tax rate is 7%, the tax due is $27.30 ($5000 + $1500 x 2% x 3 x 7%).

Example 3: A car dealer takes an automobile in trade for $2000 and adds $1000 in repairs. The automobile is used 2 months and then sold in a 7% jurisdiction for $6000. Tax due on the use is $8.40 ($2000 + $1000 x 2% x 2 x 7%), and tax due on the sale is $420 ($6000 x 7%).

*Short period means six months or less. If for whatever reason the vehicle is used for a period of time in excess of the short period as defined, the tax would be due on the dealer's total cost for the vehicle. The amount of tax due would be reduced by any use tax computed on the 2% depreciation per month which has already been remitted. This represents Department policy effective June 1, 1983.