Fair Market Value Deduction

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When buying a new replacement vehicle, motor vehicle dealers, lessors, and rental companies can use the fair market value deduction to reduce their motor vehicle sales tax responsibility. A fair market value deduction involves both a new "replacement vehicle" and a "retired vehicle" removed from service.

Computing the amount of tax is based on the difference between the total purchase price of the replacement vehicle and the fair market value of the retired vehicle.

To qualify for the deduction, dealers, lessors, and rental companies must meet certain requirements.

A ***dealer*** must

- be a motor vehicle dealer licensed by the Texas Department of Transportation, regularly and actively engaged in selling vehicles as a primary business function; and
- separately sell at least 5 different vehicles during any 12-month period.

A ***lessor*** (leases vehicles for contract periods exceeding 180 days) must

- be licensed by the Texas Department of Transportation, regularly and actively engaged in leasing motor vehicles as a primary business function; and
- separately lease at least 5 different motor vehicles during any 12-month period.

A ***rental company*** (rents vehicles for contract periods of 180 days or less) must

- have a valid *Motor Vehicle Rental Permit* issued by the Comptroller's office; and
- either be title owner of at least 5 motor vehicles that will be rented within a 12-month period or have a dealer's license from the Texas Department of Transportation.

Qualifying vehicles

The ***replacement vehicle*** must

- be titled in the name of the dealer, lessor, or rental company; and
- be used for business or personal use.

The ***retired vehicle*** must

- be titled in Texas in the name of the dealer, lessor, or rental company, or in the name of a qualifying related company in Texas;
- have been used for business or personal use;
- be retired from service and offered for sale prior to being claimed as a deduction; and
- be used only once as a fair market value deduction.

Claiming the deduction

The fair market value deduction is claimed at the time the replacement vehicle is titled and

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registered at the county tax assessor-collector's office. The old "retired vehicle" can be used as a deduction up to 18 months after it is removed from service and offered for sale.

A company can replace multiple vehicles with one of greater value, using the combined fair market value of the retired vehicles for the deduction. The fair market value of a single vehicle cannot be split among several newer but less expensive replacement vehicles, however.

A business claiming the deduction must maintain records necessary to document the accuracy of the retired vehicle's fair market value, and complete a title application/ tax statement (form 130-U) that includes a detailed description of the retired vehicle.

Determining fair market value

The fair market value of a retired motor vehicle is determined in one of two ways.

- If the retired vehicle has been sold *before* claiming the deduction, fair market value is the price the seller actually received from the buyer.
- If the retired vehicle is being offered for sale but has not been sold, fair market value is the value on the title owner's books at the time the vehicle is retired, provided that the owner's book value is based on generally accepted accounting principles.

Computing the tax

The amount of tax is based on the difference between the total purchase price of the replacement vehicle and the fair market value of the retired vehicle. A rental company can use the fair market value deduction to establish its minimum gross rental receipts tax liability.

Example

Purchase price of replacement vehicle	$24,000
Less	
Fair market value of retired vehicle	- 12,800
Amount subject to tax	11,200
Multiply	
Tax rate (6.25%)	x .0625
Equals	
Amount of tax due	**$700.00**

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