

Notice

Related Finance Companies and Seller-Financed Sales

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JUNE 2007

As seller-finance motor vehicle dealers know, when an account receivable or "note" relating to the sale of a motor vehicle is sold to another entity, the motor vehicle sales tax due on the transaction accelerates, meaning it must be remitted on the next motor vehicle seller-finance tax return.

A new law, Senate Bill 1617, passed by the 80th Legislature, now offers a seller-finance dealer safe harbor protection. Under the law, when a seller-finance dealer sells a note to a qualifying related finance company (RFC), the remaining tax due will not accelerate. The dealer will continue to collect and remit the remaining tax due as each payment is received. A qualifying RFC is one in which at least 80 percent of the ownership is identical to the ownership of the dealer who sells the note.

In order for a seller-finance dealer to receive the safe harbor protection, each qualifying RFC

to which the dealer sells notes must submit a completed registration form (AP-222) to the Texas Comptroller of Public Accounts with a required \$600 annual fee. The form is enclosed and is also available online at www.window.state.tx.us.

In order for a seller-finance dealer to receive the safe harbor protection, each qualifying RFC to which the dealer sells notes must submit a completed registration form to the Texas Comptroller of Public Accounts with a required \$600 annual fee.

Tax due will continue to accelerate when a note is sold to an unrelated lender, a non-qualifying RFC or an RFC that is not registered with the Comptroller's office at the time of the sale.

The new law applies to notes purchased by registered, qualifying RFCs on or after July 1, 2007.

The completed registration form and payment must be postmarked by the end of a month in order for the registration to be effective on the first day of that month and through the next year. For example, a completed registration form and \$600 fee postmarked on July 15, 2007, will be effective for notes sold on or after July 1, 2007, through June 30, 2008.

If you have any questions, please contact us by e-mail at tax.help@cpa.state.tx.us or call us toll-free at (800) 252-1382 or in Austin at (512) 463-4600.