

Chapter 6

Sales Tax



Sales Tax

A used car dealer in California can obtain a seller's permit from the California Department of Tax and Fee Administration (CDTFA) by completing an application and submitting it to the CDTFA. The application can be completed online, by mail, or in person at a CDTFA office.

To apply for a seller's permit, the dealer will need to provide information about their business, such as the business name, address, type of ownership, and tax identification number. They will also need to provide information about the types of products they will be selling and how they will be conducting sales, such as at a physical location or through online sales.

Once the application is submitted, the CDTFA will review it and may request additional information if needed. If the application is approved, the CDTFA will issue a seller's permit to the dealer, which allows them to legally sell and collect sales tax on their products in California.

You can visit cdtfa.ca.gov for more information.

How to Calculate Sales Tax

In California, the sales tax on a used car is calculated based on the following:

- The selling price of the vehicle includes any add-ons that the dealer included at the time of the sale.
- The smog fees.
- The documentation fees.

The current sales tax rate in California is 7.25%, but the actual tax rate will vary slightly depending on the city and county where the sale takes place. Sales tax is calculated based on the California zip code that the customer is purchasing from. If a customer is registering the vehicle out of state, the sales tax is calculated based on where the dealership is located.

To calculate the sales tax, the dealer multiplies the selling price of the vehicle by the current tax rate. For example, if the selling price of a used car is \$10,000, the sales tax would be \$725 ($10,000 \times 0.0725 = 725$).

Special Circumstances Collecting Sales Tax

Car dealers in California need to be aware of several special circumstances regarding sales tax:

- **Trade-in allowance:** When a buyer trades in a vehicle, the value of the trade-in can be applied toward the purchase price of the new vehicle, and sales tax is only due on the difference.
- **Nonresident military personnel:** If a nonresident member of the military stationed in California buys a car, they may be exempt from paying California sales tax. However, they must provide proof of their military status and provide documentation showing that the vehicle will be registered in another state.

- Out-of-state buyers: If an out-of-state buyer purchases a car in California and takes delivery of the vehicle outside of California, they are not required to pay California sales tax.
- California residents buying out-of-state: If a California resident purchases a car from an out-of-state dealer and takes delivery of the vehicle in California, they are required to pay California use tax, which is calculated based on the purchase price of the vehicle.
- Gift transfers: If a car is given as a gift, the recipient may be exempt from paying sales tax if certain conditions are met, such as if the vehicle is transferred between family members.
- Lease buyouts: If a lessee decides to purchase the vehicle that they were leasing, they may be required to pay sales tax on the purchase price, depending on the terms of the lease agreement.

It is important for car dealers in California to be aware of these special circumstances and to ensure that sales tax is collected and remitted appropriately.