



## 9. How Does Tax Apply to Core Charges for Vehicle Repair Parts?

Putting the "parts" together in figuring out taxes can be just as challenging as putting the parts together on a vehicle. The parts must fit right to get the right results.

For example, a common problem area is how to apply tax when there is a "core" charge.

Core charges are trade-in allowances included in the selling price of a part. They are designed to encourage the return of old parts that can be remanufactured. Auto parts sellers often include a core charge when they sell parts such as batteries, water pumps, brake shoes, and alternators.

### Example

A seller sells a battery for \$54, which includes a \$7 core charge. If the buyer trades in his or her old battery, the seller will give the buyer a \$7 credit toward the purchase.

### How tax applies

How you calculate the taxable selling price of the part will depend on whether you are selling a new or used part, or a reconditioned or rebuilt part.

### New or used parts

You are liable for tax on the selling price of the new or used part, *including* the core charge. Tax applies to the core charge because the allowance for the trade-in is considered part of your "payment" for the sale.

### Example

Selling price of new battery (includes a \$7 core charge)	\$54.00
Tax (\$54 x 7%)	3.78
Trade-in allowance	- 7.00
Total	\$50.78

Some sellers separately invoice the trade-in allowance for an old battery as a "core charge." Even though the trade-in is separately invoiced, tax must still be calculated on the selling price *before* the trade-in.

### Reconditioned or rebuilt parts

On sales of reconditioned or rebuilt parts, tax applies to the "exchange price." The exchange price

is the total selling price of the part, including any core charge, less any credit you give the customer for turning in a worn part.

\* You should not tax the core charge credit whether you give it to the customer at the time of the sale or at some later point. If you refund a core charge to your customer after the original sale, you must also be sure to refund any tax you collected on the charge. Any tax you do not refund must be paid to the Board. \*

### Example

Rebuilt alternator (including \$9 core charge)	\$120.00
Core charge credit	- 9.00
Taxable selling price	111.00
Tax (\$111.00 x 7%)	7.77
Total	\$118.77

Tax does not apply to the core charge because you are selling a reconditioned or rebuilt part.

## 10. Tire Recycling Fee Now Applies to New Tires on New or Used Vehicles That Are Leased, Rented, or Sold

As the result of the passage of Senate Bill 876 (ch. 838, Stats. 2000), the Tire Recycling Fee has been expanded to include additional fee payers.

Prior to the passage of the bill, the fee applied only to new tires that were sold separately and were sold for use with on-road motor vehicles, motorized equipment, construction equipment, or farm equipment. With the passage of AB 876, effective January 1, 2001, the fee now also applies to new tires on new and used vehicles when those vehicles are leased, rented, or sold. Specifically, the fee applies to new tires provided with

- A new or used motor vehicle (including the spare tire),
- New or used construction equipment, or
- New or used farm equipment.

When a vehicle is sold with new tires, the fee is due upon the retail sale of that vehicle. When a vehicle is leased or rented the fee is due on the first rental or lease of the vehicle.

(see over)