



New Jersey Tax Guide

Motor Vehicle Purchases/Leases



MOTOR VEHICLE PURCHASES

1. How is a motor vehicle defined in the Sales and Use Tax Act?

Motor vehicles are designed for operation on public highways and powered by a motor (not by muscular power). Examples include cars, motorcycles, and house trailers. Examples of products that are not considered motor vehicles include snowmobiles, all-terrain vehicles, lawn tractors, and bulldozers.

2. When is the purchase of a motor vehicle in New Jersey subject to Sales Tax?

When you purchase a motor vehicle and any of the following conditions are met:

- You are a New Jersey resident;
- You have a place of abode (see question 41) in New Jersey;
- You are a business purchaser who maintains a place of business in New Jersey;
- You will be using the motor vehicle for business purposes in this State.

3. When is the purchase of a motor vehicle in New Jersey exempt from tax?

When the purchase is made by:

- A nonresident with no place of abode (see question 41) in this State;
- An exempt organization with a valid Exempt Organization Certificate (Form ST-5) for its exclusive use;
- A person recognized as a Foreign Diplomat by the United States of America; or
- A purchaser who claims the vehicle will be used in an exempt manner (e.g., a limousine company).

4. Are dealerships required to separately disclose Sales Tax on a sales invoice?

Yes. The Sales and Use Tax Act requires retailers to separately state the Sales Tax **on any sales slip, invoice, receipt, or other statement** of the price provided to the customer. (N.J.S.A. 54:32B-12(a)) This includes paperwork signed by the customer when a transaction price has been agreed upon as well as paperwork signed when a customer takes delivery of the vehicle.

5. What must a dealership include when determining the sales price (i.e., purchase price) of a motor vehicle?

- Federal excise taxes;
- Destination charges from a manufacturer to a dealership;
- Charges for preparing the motor vehicle for delivery to the purchaser or for additional work on the motor vehicle;
- Documentary service fees (See Question 7.);
- Charges for an extended warranty contract and service/maintenance agreement;
- Charges for additional accessories or equipment; and
- Any manufacturer's rebate or cash, either shown as a down payment or as a deduction from the sales price.

6. What must a dealership exclude when determining the sales price of a motor vehicle?

The amount of any credit the dealership gives the purchaser for a trade-in, and actual costs imposed by the New Jersey Motor Vehicle Commission (MVC) for a motor vehicle title and registration.

DEALERSHIP SERVICES

7. Are documentary fees taxable?

Yes. Retailers charge "documentary service fees" to prepare title and registration paperwork as part of the process of selling a motor vehicle to a retail consumer. They can include clerical and messenger services, computer time, and paperwork preparation charges.

These fees are charged by dealers for processing documents. Documentary fees *are not* required by the State, unlike Motor Vehicle Commission fees for the actual title and registration, which *are* required by the State. Documentary fees are considered expenses of the dealer or services necessary to complete the sale, both of which should be included in the "sales price" definition in the law.

8. Is the service of etching a motor vehicle window (i.e., engraving a vehicle's vehicle identification number onto the windshield and windows) taxable?

Yes. However, window etching is a negotiable service between the dealer and the consumer. The engraving service is not required by the State of New Jersey.

9. Are Motor Vehicle Commission fees taxable?

No. Charges for the actual costs of title and registration fees imposed by the New Jersey Motor Vehicle Commission are not subject to tax. These fees and documents are required by the State of New Jersey.

WARRANTIES

10. Is the purchase of an extended warranty taxable?

Yes. Because the maintenance, repair, or servicing of motor vehicles is taxable, and an extended warranty is an agreement to provide such services, the **purchase** of the extended warranty also is subject to tax, whether or not any services are actually performed under the warranty.

11. Is the purchase of an extended warranty by a nonresident taxable?

No. The **purchase** of an extended warranty for a motor vehicle that is registered outside of New Jersey is not taxable. The purchase also is exempt from tax if you are eligible to complete [Form ST-10](#). See question 40.

REPAIRS

12. Are charges for maintaining, servicing, or repairing a customer's motor vehicle taxable?

Yes. For more information see [ANJ-6: Auto Repair Shops & New Jersey Sales Tax](#).

13. Are charges for towing, including charges for the use of special equipment such as a dolly or tilt-bed truck, subject to tax?

No. These charges are not taxable provided that the nontaxable towing charges are stated separately from any taxable charges on the repair order or other invoice.

14. Are repairs made to a vehicle under an extended warranty taxable?

Sales Tax is not due on either charges for parts or charges for services when performed under an extended warranty. However, if the agreement requires the customer to meet

a deductible, the amount of the deductible payment is subject to Sales Tax when made in connection with a repair service.

15. Are inspections performed by an official inspection station taxable?

No. Inspections are not taxable.

16. Are disposal fees taxable?

Disposal Fees are only taxable when a repair shop passes the fees to the consumer as part of the taxable service. For example, if you buy four new tires and are charged a tire disposal fee of \$10 for the old tires, the entire amount (cost of new tires + \$10 fee) is subject to New Jersey Sales Tax. If you take your old tire to a repair shop to dispose of it and the shop charges a \$10 disposal fee, if you are not purchasing any other goods or services - no Sales Tax is charged on the disposal fee.

MOTOR VEHICLE LEASES

17. How are motor vehicle leases taxed?

The length of the lease agreement dictates when tax is due.

- Short-term agreement: For leases with a term of six months or less (or open-ended with no expiration), Sales Tax is due on each payment.
- Long-term agreement: For leases with a term of more than six months, Sales Tax is due on the entire lease amount and must be paid at the beginning of the lease.

A motor vehicle lease is subject to Sales Tax unless a valid exemption applies. The person who leases the motor vehicle from the dealership (the lessee) is responsible for paying Sales Tax on the transaction. The dealership (the lessor) is responsible for collecting and remitting the Sales Tax.

18. In a lease transaction, are “bank fees” or “acquisition fees” taxable?

Yes. They are considered part of the sales price when using the total lease payments method (see below).

19. How is Sales Tax calculated for long-term leases?

For long-term leases, Sales Tax must be calculated using either the:

- Original Purchase Price Method, or
- Total Lease Payments Method.

Original Purchase Price Method

When calculating the tax using this Method, the following items must be included in the sales price:

- The amount the dealership paid for the motor vehicle being leased (the dealership cannot deduct the value of any trade-in the dealership received when acquiring the motor vehicle being leased);
- Any separately stated charges for transportation to the dealership's place of business; and
- The cost of any accessories or options installed or any services performed by the dealership (or others on the dealership's behalf) on or in connection with the leased motor vehicle.

The following item is excluded from the sales price:

- The value of the lessee's trade-in (see question 28 below).

Total Lease Payments Method

When calculating the tax using this Method, the following items must be included in the sales price:

- The lease amount (including depreciation, interest, or finance charges, often referred to as the money factor);
- Acquisition fees, capital cost reduction payments, and all other fees and charges paid to the lessor that represent the lessor's charge for the lease;
- Any manufacturer's rebate or reimbursed coupon applied toward the cost of the lease; and
- Any charge for documentary service fees imposed by the dealership (See question 7).

The following items are excluded from the sales price:

- The value of the lessee's trade-in motor vehicle (see question 28);
- Any negative equity from a trade-in motor vehicle that is rolled into the lease;
- Any prior lease payment balance that is rolled into the lease;
- Sales Taxes that are rolled into the lease; and
- Actual costs imposed by the New Jersey Motor Vehicle Commission for title and registration.

20. Can the Sales Tax due at the beginning of a long-term lease be incorporated into the monthly lease payments?

Yes. If the dealership and lessee agree, the full amount of Sales Tax due may be incorporated into the lease payments. However, the dealership is still required to remit the full amount of tax due with the Sales Tax return filed for the period in which the leased motor vehicle was delivered to the lessee in this state.

21. Must a dealership separately state the Sales Tax on the monthly invoice issued to the lessee?

For long-term agreements, Sales Tax is due in full at the beginning of the lease. A monthly payment by the lessee to the dealership does not contain Sales Tax, but may contain a monthly reimbursement for Sales Tax paid by the dealership. As such, any periodic invoice does not require a separate Sales Tax line item.

For short-term agreements, Sales Tax is due on the monthly payments. Each invoice **must contain** a Sales Tax line item.

22. If the lease agreement is cancelled before the expiration of the term, is the lessee entitled to a refund of any portion of the Sales Tax paid?

Yes. For a long-term lease, for which the dealership collected and remitted Sales Tax at the inception of the lease (based on the entire lease amount), the lessee may seek a refund for the Sales Tax paid for the remaining portion of the lease. The lessee may seek a refund from the dealership or from the Division of Taxation.

The lessee may request a refund from the Division of Taxation by filing a Claim for Refund ([Form A-3730](#)) with all supporting documentation within four years of payment of the tax.

23. What are the Sales Tax consequences when a long-term lease agreement is extended beyond the original term of the contract?

When a long-term lease is extended beyond the original term without a new agreement, the dealership may collect and remit Sales Tax on a monthly basis. If the extension is treated as a new lease, i.e., it contains new terms or conditions, the dealership must collect and remit tax based on whether the new agreement is a short-term or long-term lease. (See question 19).

No Sales Tax is owed for the extension period if the Sales Tax was calculated using the Original Purchase Price Method.

24. Is Sales Tax due on a replacement leased motor vehicle if the original leased motor vehicle is stolen or destroyed during the term of the lease?

Additional Sales Tax is due for a short-term lease because the Sales Tax is applied to each lease payment, regardless of the motor vehicle leased.

For long-term leases, if the dealership calculated the tax due using the Total Lease Payments Method, additional Sales Tax may be due if there is a difference in the lease amount of the two motor vehicles. If the dealership used the Original Purchase Price Method for the original motor vehicle, it must calculate Sales Tax on the new motor vehicle either using the Total Lease Payments Method or the Original Purchase Price Method.

LEASES TO NONRESIDENTS

25. Are motor vehicle leases to nonresidents subject to Sales Tax if the motor vehicle is registered out of state?

No. New Jersey Sales Tax is not due as long as the motor vehicle is not registered in New Jersey. The dealership does not collect New Jersey Sales Tax if the lessee indicates that the primary property location of the motor vehicle is located at an address outside of New Jersey.

Form ST-10 is not required for a lease transaction.

26. Is Sales Tax due if the motor vehicle is initially leased to a nonresident who moves into New Jersey during the course of the lease?

Yes. When a leased motor vehicle is brought into New Jersey, Sales Tax is due on each of the remaining periodic payments attributable to the period of the agreement remaining after the first use in New Jersey. The lessee must remit Sales Tax with each periodic payment.

27. Can a lessee obtain a refund for Sales Tax if the lessee was initially a resident, but moved out of New Jersey during the term of the lease?

Yes. If the lessee paid the full amount of Sales Tax at the beginning of the lease (long-term agreement) and the primary property location of the motor vehicle originally leased in New Jersey is permanently relocated to another state before the expiration of the lease, the lessee is entitled to a refund of the Sales Tax allocated to the remainder of the lease.

The lessee may request a refund from the Division of Taxation by filing a Claim for Refund ([Form A-3730](#)) to the Division with all supporting documentation within four years of payment of the tax.

TRADE-INS

28. When is a purchaser of a motor vehicle allowed a credit against the sales price for the value of a trade-in?

A trade-in credit is permitted only when:

- The vehicle the purchaser trades in is a motor vehicle as defined in the Sales and Use Tax Act.
- The purchaser trades in a motor vehicle to a registered motor vehicle dealership that takes the trade-in for resale;
- The contract for purchase of the motor vehicle and the trade-in are executed at the same time; and

29. Can a dealership apply the value of a trade-in from a purchaser as a credit for a leased motor vehicle?

Yes. The value of a trade-in can be used to reduce the tax base if the execution of the contract for lease and the trade-in occur at the same time. The dealership must obtain

the certificate of title for the trade-in and retain a copy of it as part of the lease transaction. The credit for the value of the trade-in from the lessee can be used when calculating the Sales Tax due on a short-term or long-term lease using either the Original Purchase Price Method or the *Total Lease Payments Method* (see Question 19.)

A lessee may not trade in a leased motor vehicle. However, if the lessee purchased the previously leased vehicle through a buy-out, the lessee may use the vehicle as a trade-in.

30. Is a purchaser who trades in a motorcycle for a motor vehicle eligible for a trade-in credit against the sales price?

Yes. A motorcycle is a motor vehicle as defined in the Sales and Use Tax Act.

31. Are there any vehicles that cannot be used as a trade-in for a motor vehicle?

Yes. Items such as snowmobiles, all-terrain vehicles, lawn tractors, bulldozers, etc., cannot be used as a trade-in for a motor vehicle because these are not motor vehicles as defined in the Sales and Use Tax Act.

32. Can a purchaser receive a trade-in credit for more than one motor vehicle when purchasing a vehicle?

Yes. As long as the trades are part of the purchase transaction, the purchaser is eligible for a credit against the sales price of a motor vehicle.

33. Does the purchaser have to be the title holder of the motor vehicle that he or she is trading in to receive a credit against the sales price?

No. The Sales and Use Tax Act does not require that the purchaser who is trading in a motor vehicle be the title holder.

34. Can the value of a motor vehicle that a purchaser is trading in be applied to the purchase of two motor vehicles?

Yes. As long as the requirements under question 28 are met.

REBATES AND DISCOUNTS

35. Is a manufacturer's rebate or a rebate from a credit card program included in the sales price of the motor vehicle?

Yes. Rebates are treated like cash because the dealership that accepts them is reimbursed by a third party. When a purchaser uses a manufacturer's rebate or credit card program rebate, Sales Tax is charged on the price of the motor vehicle before any rebate(s) because that is the amount that the dealership ultimately receives - part from the purchaser, and the balance from the manufacturer or credit card company.

36. If the dealer gives the purchaser a discount on the sales price, is the dealer's discount included in the sales price of the motor vehicle?

No. When the motor vehicle is offered at a discounted price and the dealership is not reimbursed by a third party, Sales Tax is due only on the discounted price of the motor vehicle.

37. Is the title transfer involved in assigning or refinancing a motor vehicle loan subject to Sales Tax?

No. Refinancing or assigning a motor vehicle loan and the subsequent transfer of title is a financial transaction and is not subject to tax under the Sales and Use Tax Act.

RESIDENCY/NONRESIDENCY

38. Who is considered to be a resident for Sales Tax purposes?

For Sales Tax purposes, a resident is:

- Any person who has a place of abode (see question 41) in New Jersey;
- Any person who is in the Armed Forces of the United States and listed New Jersey as his or her home of record or presently resides in New Jersey whether or not he or she is assigned to a military reservation in this State;
- Any business established under the laws of New Jersey;
- Any entity that has a place of business in New Jersey; or
- Any entity engaged in any employment, trade, business, or profession for which the motor vehicle will be used in this state.

39. Who is considered to be a nonresident for Sales Tax purposes?

For Sales Tax purposes, a nonresident is any person or entity that does not meet any of the criteria to be considered a resident.

40. Is a motor vehicle purchase by a nonresident exempt?

For the purchase of a motor vehicle to a nonresident to be exempt, the nonresident purchaser must fully complete the Motor Vehicle Sales and Use Tax Exemption Report ([Form ST-10](#)).

The dealership must mail the completed form to the New Jersey Division of Taxation.

41. A resident is defined, in part, as anyone who has a place of abode in New Jersey. What is a place of abode?

A place of abode is a dwelling place maintained by a person or by another for him or her, whether or not owned by such person, on other than a temporary or transient basis. The dwelling may be a house, apartment or flat, a room, including a room in a hotel, motel, boarding house or club, or at a residence hall operated by an educational or charitable institution, barracks, billets, or other housing provided by the Armed Forces of the United States, or a trailer, mobile home, houseboat, or any other premises.

42. Is a person who purchases a motor vehicle while in the process of moving out of New Jersey considered a resident for Sales Tax purposes?

Yes. A person who is in the process of moving out of New Jersey still has a place of abode in New Jersey and is considered a resident.

43. Is a person who maintains a place of abode in another state, but who meets one of the conditions of residency considered a New Jersey resident?

Yes. It doesn't matter if a purchaser maintains a place of abode in another state if the purchaser is a New Jersey resident.

44. Is an out-of-state resident who attends college in New Jersey considered a resident of New Jersey for Sales Tax purposes?

Yes. Out-of-state residents attending college in New Jersey have a place of abode in New Jersey and are considered residents for Sales Tax purposes.

45. Is an out-of-state resident who purchases a motor vehicle in New Jersey and pays New Jersey Sales Tax also required to pay Use Tax on that purchase in his or her home state?

It depends on the law of the purchaser's home state. The out-of-state purchaser should contact his or her home state's taxing authority to determine whether he or she will be eligible for a credit of Sales Tax paid in New Jersey.

New Jersey law allows a credit against the Use Tax due for any Sales or Use Tax legally due and paid to another state or local jurisdiction.

46. Is Sales Tax due if the purchaser is an out-of-state resident who maintains a vacation home in New Jersey?

Yes. New Jersey considers the purchaser to be a resident for Sales Tax purposes because he or she maintains a permanent place of abode in this state.

47. Is a person who is serving in the military and stationed in New Jersey required to pay tax on the purchase of a motor vehicle in this state if his or her home of record is not New Jersey?

Yes. All nonresident military personnel, whether living on or off a military reservation within the territorial limits of New Jersey, must pay New Jersey Sales Tax on motor vehicles purchased or leased in this state.

48. Is a veteran exempt from paying Sales or Use Tax on the purchase of a motor vehicle?

No. There is no exemption from Sales or Use Tax on the purchase of a motor vehicle for a veteran or disabled veteran.

REPLACEMENT MOTOR VEHICLES

49. A purchaser accepts a replacement motor vehicle in lieu of a cash refund from the manufacturer under the lemon law. The value of the replacement motor vehicle is greater than the value of the motor vehicle the purchaser is replacing. Does the purchaser owe additional Sales Tax?

No. Additional Sales Tax is not due in this instance. An exchange of this type is not considered to be a retail sale transaction under the Sales and Use Tax Act. However, if

the purchaser buys a higher priced replacement vehicle and pays an additional amount to the motor vehicle dealership, that additional amount is subject to Sales Tax. If the purchaser receives a cash refund for the original vehicle and then purchases a new motor vehicle, Sales Tax is due on the sales price of the new motor vehicle because it is a separate transaction.

50. A purchaser receives a check from his or her insurance company for a motor vehicle which the company declared to be a total loss. If the purchaser buys a replacement motor vehicle, is credit allowed for the amount of Sales Tax paid on the original motor vehicle?

No. A credit is not allowed because the purchase of the replacement motor vehicle is a separate transaction from the purchase of the original. Sales Tax is due on the sales price of the replacement motor vehicle.

Exempt Organization Certificate (Form ST-5)

51. What is an exempt organization?

An exempt organization includes certain nonprofit organizations to which the Division of Taxation has granted exempt status (e.g., churches, rescue squads, volunteer fire and ambulance companies, and organizations that are organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes). To be exempt from Sales and Use Tax in New Jersey the entity must register with the New Jersey Division of Taxation and apply for and receive an Exempt Organization Certificate (Form ST-5).

52. Is every exempt organization purchase exempt from tax?

Yes. Sales made to an exempt organization that pays for purchases using organization funds and issues the seller a fully completed Form ST-5 are exempt from tax. The dealership must enter the appropriate exemption code on the NJ Sales Tax Satisfied stamp imprint. Sales Tax exemption codes for the MVC are listed [here](#).

If the person making the purchase for the exempt organization pays with personal funds, the exemption from Sales Tax does not apply, even if the purchaser will receive reimbursement from the exempt organization.

53. If an official or employee of an exempt organization registers a motor vehicle in his or her own name, is the official or employee exempt from paying tax?

No. The motor vehicle must be titled and registered in the name of the exempt organization for the purchase to be exempt from tax.

54. If an exempt organization purchases a motor vehicle to be used as a prize in a fund-raising raffle, is the purchase exempt from Sales Tax?

Yes. The purchase of a motor vehicle by an exempt organization for use as a prize is exempt, so long as the exempt organization issues the dealership a fully completed Form ST-5 and pays using the organization's funds.

55. When is the raffle winner of the motor vehicle required to pay Sales Tax?

It depends on the circumstances. The winner is required to pay Sales Tax if the dealer transfers the title directly to the raffle winner. The winner will pay Sales Tax based on the price the exempt organization paid for the motor vehicle.

The winner is not required to pay Sales Tax if the exempt organization transfers the automobile title to the winner.

56. Is the raffle winner of a motor vehicle required to pay Income Tax on the value of the prize?

Yes. Any prize won in a raffle, drawing, contest or television game show or any other event is taxable and must be included on Line 25 of your New Jersey Resident Tax Return.