

MONEY MATTERS

Presented By:



Out of State Sales Tax – Simplified?

In an effort to reduce the administrative burden caused by out of state vehicle sales, Indiana previously passed legislation to streamline the application of sales tax. Although this was meant to simplify the process, it has still left many dealers in a bind when frustrated customers contact them after visiting their local BMV.

When delivery takes place out of state, the answer is simple: sales tax does not apply. To qualify for the exemption, the vehicle must physically be delivered outside of Indiana by the dealer or by a third-party carrier hired by the dealer. If the customer hires the carrier to pick up the vehicle from the Indiana dealer, then possession is considered to take place in Indiana and sales tax will apply. And when sales tax does apply, things get a little more complicated.

Per Information Bulletin #84, “when a purchaser of a motor vehicle intends to both (a) transport that motor vehicle to a destination outside Indiana within 30 days after delivery, and (b) title and register that motor vehicle for use in another state or county, the rate at which sales tax is to be imposed and collected on the sale is the rate of the intended destination state or country.” Sounds simple enough, right? But you have to read the fine print. First, you only apply the destination state’s sales tax rate. Any locally imposed rates are not included in the sales tax rates dealers are required to use. Next, the methodology for figuring the base amount subject to sales tax does not change. You are only required to change the sales tax rate when calculating the amount of sales tax to be collected. Finally, if the destination state’s rate is greater than Indiana’s rate, the sales tax rate is capped at Indiana’s tax rate (7%).

A handful of states (e.g., Montana) do not impose sales tax and therefore no tax would apply in Indiana as well. In other states the tax is not considered a sales tax (e.g., Georgia) and although tax would not apply in Indiana, the destination state’s special “tax” would apply when registering the vehicle. In each of these scenarios Indiana does not require the dealer to collect any sales tax. The frustration comes in when a customer goes to title their vehicle in their home state and does not understand that additional taxes or fees may apply after they have already paid some tax in Indiana.

Several states apply certain rules which differ from Indiana (e.g., Kentucky – no trade-in allowance) and additional tax will likely be due when registering the vehicle. In most cases though, the destination states allow a credit for the taxes paid in Indiana and the customer only has to pay the difference. The unfortunate situation occurs when the destination state does not allow a credit and the customer is essentially forced to pay the sales tax twice, once in Indiana and again in their home state. Although special exceptions *may* apply, in general the following states do not allow the credit: Arkansas, Mississippi, and West Virginia.

The individual state laws are complex and care should be taken when advising a customer on the application of sales tax. The Indiana Department of Revenue has created a web page which details the various state tax rates that can be found at www.in.gov/dor/3781.htm. For more information, please feel free to contact Scott Herman at 317-347-5200 or sherman@kbparrish.com.

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