



**Glenn Hegar**

Texas Comptroller of  
Public Accounts

# FAIR MARKET VALUE DEDUCTION

## WHAT IS CONSIDERED A "MOTOR VEHICLE"?

"Motor vehicles" are self-propelled units that transport property or persons on public highways. The term also includes trailers, semi-trailers, travel trailers and motorcycles designed for highway use.

When buying a new replacement vehicle, motor vehicle dealers, lessors, and rental companies can use the fair market value deduction to reduce their motor vehicle sales tax responsibility. A fair market value deduction involves both a new "replacement vehicle" and a "retired vehicle" removed from service.

To qualify for the deduction, dealers, lessors and rental companies must meet certain requirements.

**A dealer must:**

- be a motor vehicle dealer licensed by the Texas Department of Motor Vehicles, regularly and actively engaged in selling vehicles as a primary business function; and
- separately sell at least five different vehicles during any 12-month period.

**A lessor (leases vehicles for contract periods exceeding 180 days) must:**

- be licensed by the Texas Department of Motor Vehicles, regularly and actively engaged in leasing motor vehicles as a primary business function; and
- separately lease at least five different motor vehicles during any 12-month period.

**A rental company (rents vehicles for contract periods of 180 days or less) must:**

- have a valid *Motor Vehicle Rental Permit* issued by the Comptroller's office; and



- either be the title owner of at least five motor vehicles that will be rented within a 12-month period or have a dealer's license from the Texas Department of Motor Vehicles.

## QUALIFYING VEHICLES

**The replacement vehicle must:**

- be titled in the name of the dealer, lessor or rental company; and
- be used for business or personal use.

**The retired vehicle must**

- be titled in Texas in the name of the dealer, lessor or rental company, or in the name of a qualifying related company in Texas;

When buying a new replacement vehicle, motor vehicle dealers, lessors and rental companies can use the **fair market value deduction** to reduce their motor vehicle sales tax responsibility.

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# FAIR MARKET VALUE DEDUCTION

- have been used for business or personal use;
- be retired from service and offered for sale prior to being claimed as a deduction; and
- be used only once as a fair market value deduction.

## CLAIMING THE DEDUCTION

The fair market value deduction is claimed at the time the replacement vehicle is titled and registered at the county tax assessor-collector's office. The old "retired vehicle" can be used as a deduction up to 18 months after it is removed from service and offered for sale.

A company can replace multiple vehicles with one of greater value, using the combined fair market value of the retired vehicles for the deduction. The fair market value of a single vehicle cannot be split among several newer but less expensive replacement vehicles, however.

A business claiming the deduction must maintain records necessary to document the accuracy of the retired vehicle's fair market value, and complete a title application/tax statement (Form 130-U) that includes a detailed description of the retired vehicle.

## DETERMINING FAIR MARKET VALUE

The fair market value of a retired motor vehicle is determined in one of two ways.

- If the retired vehicle has been sold *before* claiming the deduction, fair market value is the price the seller actually received from the buyer.
- If the retired vehicle is being offered for sale, but has not been sold, fair market value is the value on the title owner's books at the time the vehicle is retired, provided that the owner's book value is based on generally accepted accounting principles.

## COMPUTING THE TAX

The amount of tax is based on the difference between the total purchase price of the replacement vehicle and the fair market value of the retired vehicle. A rental company can use the fair market value deduction to establish its minimum gross rental receipts tax liability.

### Example

Purchase price of replacement vehicle	\$24,000
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### Less

Fair market value of retired vehicle	- 12,800
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Amount subject to tax	11,200
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### Multiply

Tax rate (6.25%)	x .0625
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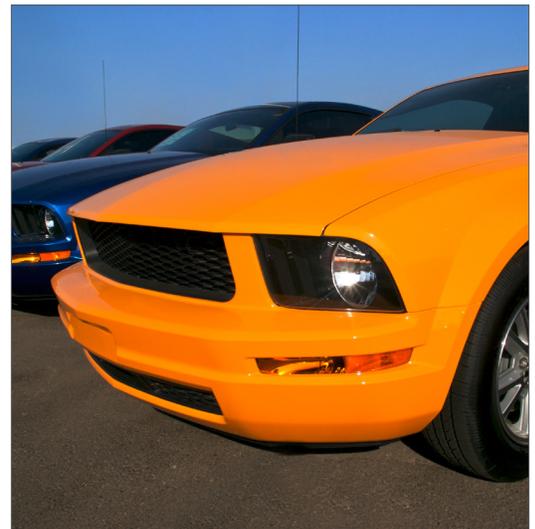
### Equals

Amount of tax due	\$700.00
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**The amount of tax** is based on the difference between the total purchase price of the replacement vehicle and the fair market value of the retired vehicle.

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