701—203.5(423) Trade-ins.

203.5(1) *Trade-ins.*

a. When tangible personal property is traded toward the purchase price of other tangible personal property, the sales price shall be only that portion of the purchase price that is payable in money to the retailer if the conditions in paragraph 203.5(1)*"b"* are met.

b. The tangible personal property is traded to a retailer, the property traded is the type normally sold in the regular course of the retailer's business and either subparagraph 203.5(1)*"b"*(1) or 203.5(1)*"b"*(2) is true.

(1) The tangible personal property traded to a retailer is intended by the retailer to be ultimately sold at retail; or

(2) The tangible personal property traded to a retailer is intended to be used by the retailer or another in the remanufacturing of a like item.

EXAMPLE 1: Customer A owns a car valued at $5,000. Customer A trades a used car to XY Car Dealer for a used car valued at $12,000. XY Car Dealer normally sells used cars. Use tax would be due on the $7,000 in money that Customer A paid to XY Car Dealer, as both conditions in paragraph 203.5(1)*"b"* and subparagraph 203.5(1)*"b"*(1) have been met.

EXAMPLE 2: John Doe has a pickup truck with a value of $2,000. John wants a boat, so he offers to trade his $2,000 pickup to ABC Boat Dealer for the purchase of a boat valued at $5,000. ABC Boat Dealer is a new and used boat dealer. ABC Boat Dealer agrees to accept the $2,000 pickup and $3,000 cash in trade for the boat. In this example, the tax would be computed on $5,000. The trade-in provision would not apply because the condition in paragraph 203.5(1)*"b"* has not been met. The property traded is not the type of property normally sold by ABC Boat Dealer in the regular course of the boat dealer's business.

EXAMPLE 3: ABC Corporation trades 500 bushels of corn and $500 cash to the local cooperative elevator for the purchase of various hand tools. In its regular course of business, the local cooperative elevator sells grain for processing into bread. The trade-in provision in this example would not apply because the condition in subparagraph 203.5(1)*"b"*(1) has not been met. When ultimately sold by the cooperative elevator, the grain traded toward the purchase price of the hand tools is sold for processing and not at retail.

EXAMPLE 4: Hometown Appliance store is in the business of selling stoves, refrigerators, and other various appliances in Iowa. Hometown Appliance has a refrigerator valued at $650. Customer A wishes to trade a used refrigerator toward the purchase price of the new refrigerator. Hometown Appliance agrees to accept Customer A's used refrigerator at a value of $150 toward the purchase price of the new refrigerator. Customer A pays Hometown Appliance $500 in cash. The trade-in provision applies as both conditions in paragraph 203.5(1)*"b"* and subparagraph 203.5(1)*"b"*(1) have been met, and tax would be due on the $500.

Several months later, Hometown Appliance sells the used refrigerator it received from Customer A to the local school district, which is exempt from sales tax on its purchase. The trade-in provision on the original transaction is still applicable because both conditions in paragraph 203.5(1)*"b"* and subparagraph 203.5(1)*"b"*(1) were met. The sale is "at retail," even if the sales price is exempt from tax.

EXAMPLE 5: ABC Auto Supply is in the business of selling various types of automobile and farm implement supplies. The normal selling price for a car generator is $80. ABC Auto Supply allows a $20 trade-in credit to any customer who wishes to trade in an unworkable generator. At the time ABC Auto Supply accepts the unusable generator, it knows that the generator will not be sold at retail; however, ABC Auto Supply also knows that the generator will be sold to XYZ Company, which is in the business of rebuilding generators by using existing parts plus new parts. In this example, the trade-in provision would apply since conditions in paragraph 203.5(1)*"b"* and subparagraph 203.5(1)*"b"*(2) have been met.

203.5(2) All the provisions of subrule 203.5(1) apply to the trade-in of vehicles subject to registration when the trade involves retailers of vehicles.

When vehicles subject to registration are traded among persons who are not retailers of vehicles subject to registration, the conditions set forth in subrule 203.5(1) need not be met. The purchase price is only that portion of the purchase price represented by the difference between the total purchase price of the vehicle subject to registration acquired and the value of the vehicle subject to registration traded.

This rule applies only when a vehicle is traded for tangible personal property, regardless of whether the transaction is between a retailer and a nonretailer or between two nonretailers. The vehicle traded in must be owned by the person(s) trading in the vehicle. It is presumed that the name or names indicated on the title of the vehicle dictate ownership of the vehicle as set forth in Iowa Code chapter 321.

EXAMPLE 1: John Doe has an automobile with a value of $2,000. John and his neighbor Bill Jones, who has an automobile valued at $3,500, decide to trade automobiles. John pays Bill $1,500 cash. Vehicles subject to registration are subject to use tax, which is payable to the county treasurer at the time of registration. In this example, John would owe use tax on $1,500 since this is the amount John paid Bill and tax is only due on the cash difference. Bill would not owe any use tax on the vehicle acquired through the trade.

EXAMPLE 2: Joe has a Ford automobile with a value of $5,000. Joe and his friend Jim, who has a Chevrolet automobile also valued at $5,000, decide to trade automobiles. Joe and Jim make an even trade, automobile for automobile, with no money changing hands. In this example, there is no tax due on either automobile because there is no exchange of money.

203.5(3) Trade for services or specified digital products. The trade-in provisions referenced in Iowa Code section 423.1(51) and found in Iowa Code section 423.3(59) do not apply to taxable enumerated services or specified digital products. When taxable enumerated services or specified digital products are traded, the sales price would be determined based on the value of the service or specified digital products or other consideration.

EXAMPLE: A and B agree that A will purchase a car that B now owns. The two parties agree on a purchase price of $9,000. In return for transfer of title from B, A agrees to pay B $7,000 in cash and to paint B's house with paint provided by B. A and B agree that the value of B's house painting services is $2,000. House painting is a taxable enumerated service; rule 701—219.13(423) contains more information about this service. Since the trade-in provisions are not applicable to the value of taxable enumerated services, the purchase price of the car is $9,000 and not $7,000.

203.5(4) Three-way trade-in transactions. In a three-way trade-in transaction, the agreement provides that a lessee sells to a third-party dealer a vehicle (or other tangible personal property) that the lessee owns. The lessor then purchases another vehicle from the third-party dealer at a reduced price and leases the vehicle to the lessee. The difference between the reduced sale price and retail price of the vehicle is not allowed as a trade-in on the vehicle for use tax purposes.

EXAMPLE: Customer A enters into a three-way agreement with Lessor B. Under the terms of the contract, Customer A sells a 2005 Ford Taurus owned by A to Used Car Dealer C. The retail price for the Ford Taurus is $30,000. Used Car Dealer C then sells the Ford Taurus to Lessor B for the reduced price of $25,000. Lessor B then leases the Ford Taurus to Customer A for a period of 12 months. The $5,000 difference between the reduced sale price and the retail price of the vehicle is not allowed as a trade-in on the sale of the vehicle for use tax purposes.

This rule is intended to implement Iowa Code sections 423.1(51) and 423.3(59).

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