Video Presentation Text : Sales & Use Tax : 6- Motor Vehicle Dealer Use Tax Rules

Hi! I'm Sue Miller from the Wisconsin Automobile & Truck Dealers Association and this video will address a common tax question.

How do use taxes work on dealership vehicles?

If you're a motor vehicle dealer in Wisconsin, you know you can purchase vehicles for resale without paying sales tax. You can use them for retention, demonstration, or display tax-free. But what happens when you use those vehicles for other purposes? That's when use tax comes into play.

First, let's clarify what triggers use tax. Any use beyond retention, demonstration, or display makes you liable for use tax. This includes both business and personal use, such as running errands for parts and supplies, salesperson transportation, or transportation for owners, partners, or officers. The tax calculation depends on which of three categories your vehicle use falls into.

Category one uses a simple per-plate calculation. This applies when vehicles held for sale are assigned to specific dealer employees who have federal income tax withholding, or to owners who actively participate in daily dealership operations. For 2025, the taxable amount is two hundred three dollars per month per plate. For 2026, it increases to two hundred eight dollars. You multiply this amount by your local use tax rate to get what you owe.

What does "actively participate" mean? The person must perform services like selling, accounting, managing, or consulting for more than five hundred hours per year and receive compensation. This doesn't include passive investor activities like just reviewing financial statements.

Common examples include automobiles assigned to salespersons who use them for personal travel like commuting, vehicles assigned to controllers and other employees with tax withholding who use them for personal travel, and vehicles assigned to sole proprietors, partners, shareholders, or LLC members who actively run the dealership and use vehicles personally.

Category two uses the IRS Lease Value Table. This applies to vehicles held for sale but not assigned to employees with tax withholding or qualifying active owners. You calculate use tax on the lease value for the period the vehicle is used beyond retention, demonstration, or display.

Examples include courtesy shuttles transporting customers, vehicles assigned to dealership owners who don't actively participate in daily operations, vehicles used by

family members who aren't employees with withholding or active owners, vehicles assigned to officers or directors without withholding status, and vehicles provided to nonprofits, municipalities, coaches, or celebrities.

If the vehicle is only used this way for part of a month, you can pro-rate the lease value to reflect the actual usage period.

Category three is straightforward. For vehicles not held for sale that are properly capitalized for income or franchise tax purposes, you pay use tax on the sales price you paid to acquire the vehicle. This includes tow trucks not held for sale, parts trucks, vehicles used to haul others to auctions, snowplows, and antique vehicles held for promotional purposes.

Finally, let's tackle **mixed use** with a real example. Your dealership purchases a vehicle for twelve thousand dollars for resale. You use it 40% of the time to pick up parts and 60% as a service rental, generating four hundred dollars in rental receipts during the month.

Here's the tax calculation: First, state sales tax on the rental receipts. That's four hundred dollars times five percent, which equals twenty dollars. Second, state use tax on the lease value for the parts pickup time. Assuming an annual lease value of thirty-six hundred dollars, divide by twelve months to get three hundred dollars monthly, multiply by 40% taxable use to get one hundred twenty dollars, then multiply by 5% tax rate. That's six dollars in use tax. The total combined state tax for the month is $26. Of course you also have to calculate county and municipal taxes, if applicable.

It is important to note that the use tax paid on lease value cannot offset the sales tax due on rental receipts. These are separate tax obligations that must both be paid.

Keep detailed records of how you use your inventory vehicles throughout the year. The Department of Revenue adjusts the per-plate amounts annually based on inflation. For the current amounts and the complete IRS Lease Value Table, refer to www.watda.org Dealer Resources page and Wisconsin Department of Revenue Publication 202.

Thank you for watching this video. If you have any questions or ideas for a short video topic, please feel free to contact me at (608) 251-8024 or by email at smiller@watda.org.