



DEPARTMENT OF TAXATION
STATE OF HAWAII

March 22, 1982

TAX INFORMATION RELEASE

No. 82-5

RE: Taxability of Rebates on Automobiles Sold Under Manufacturer/
Dealer Sales Incentive Programs for General Excise Tax
Purposes

Advice has been requested as to the proper tax treatment of rebates made on sales of automobiles to qualifying purchasers.

A major automobile manufacturer has embarked on a sales incentive program whereby the manufacturer and its dealers (who elect to participate in the program) will pay cash bonus to a purchaser after the sale, or if preferred, the bonus may be applied as a down payment towards the purchase of the automobile. The agreement for the program specifies that the dealers electing to participate will share with the manufacturer in funding the cash bonus at the rate of 25% and 75% respectively, where an automobile is purchased during the effective date of the program. In certain transactions whereby the automobile is sold prior to a given date but delivered during the program period, the agreement is that 100% of the bonus is to be paid by the manufacturer; no dealer contribution is involved.

In order to provide uniformity and consistency in the interpretation and application of the law, the following types of transactions which may possibly occur under sales incentive programs are presented below with accompanying explanations as to the general excise tax consequences upon the local dealer:

<u>Transaction</u>	<u>Amount Taxable</u>
1. Manufacturer's cash bonus paid directly to purchaser.	Gross sale. No deduction for bonus.
2. Dealer's cash bonus paid to purchaser.	Net sale, resulting from gross sale minus bonus which is treated as discount.

<u>Transaction</u>	<u>Amount Taxable</u>
3. Manufacturer's and dealer's cash bonuses (based upon agreed percentage) paid to purchaser.	Net sale, resulting from gross sale minus the dealer's share of the bonus payment which is treated as discount.
4. Manufacturer's cash bonus received by the purchaser and applied as a down payment by the purchaser.	Same as in #1.
5. Manufacturer's and dealer's cash bonuses (based upon agreed percentage) received by the purchaser and applied as a down payment by the purchaser.	Same as in #3.
6. Manufacturer's cash bonus received by dealer/lessor who leases automobiles usually held for sale.	Bonus taxable as "Other Income".
7. Local distributor makes rebate payments to local dealer for specific automobiles sold to bona fide daily rental and U-drive operators. Under this arrangement, the rebate is based upon quantity or volume sales and are payable subsequent to the transaction.	Local dealer: Entire rebate taxable as "Other Income", if not passed on to purchaser. Same as in #2, if all or a portion of the rebate is passed on to the purchaser.

Notwithstanding the fact that the terms "bonus", "rebates" or such other terms are used in conjunction with the conduct of automobile sales incentive programs, it is the intent of this Release to interpret and treat such terms to mean discounts on sales. The interpretation of such terms is limited in application for this purpose and does not operate to extend to other types of activities.

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