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"Cash for Clunkers" Becomes Law

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On June 25, 2009, President Obama signed into law the “Cash for Clunkers” program, now dubbed “CARS” (for Cars Allowance Rebate System). As has been advertised in the media, you will be able to turn in your older car or truck and receive a government rebate when you buy or lease a more fuel efficient new car or truck. The program, which is to run from July 1, 2009 until November 1, 2009, was allocated \$1 Billion by the federal government. Under CARS, auto dealers registered for the program will provide either a \$3,500 or \$4,500 credit on a new qualifying purchase or lease, and the dealer will be reimbursed by the government. The federal rebate is in addition to any other purchase/lease incentives, and the amount of the rebate is not to be treated as gross income for tax purposes. The federal government is currently rushing to register dealers for this program because until dealers are registered, the rebates are unavailable.

Of course, there is lots of fine print. The CARS website (www.cars.gov) lists “5 Important Things you Must Know”: (1) the “clunker” must be less than 25 years old; (2) the rebate only applies to new cars; (3) the car to be traded-in must generally get less than a combined 18 miles-per-gallon (“mpg” – combined refers to the average of city and highway mpg); (4) the trade-in vehicle must have been registered and insured continuously to the same owner for the full year prior to the trade-in; and (5) no voucher is required – the dealer applies a credit to the purchase/lease.

There are other limitations in the CARS program. The new car must have an M.S.R.P. of less than \$45,000 and the trade-in vehicle must be in

drivable condition. Most significantly, the trade-in car must be destroyed (either shredded or crushed). One goal of the law is to get the “clunkers” off the street and have them replaced with more fuel efficient vehicles. Therefore, the CARS rebate in effect become the trade-in value of your existing car or truck.

As for the rebates themselves, the \$3,500 rebate is available where the new passenger car gets at least 4 mpg more than the combined mpg of the “clunker.” For a category 1 truck (pickup or SUV) this rebate applies where the new category 1 truck gets 2 mpg more than the trade-in vehicle. Finally, for a category 2 truck (large pickup or van), the rebate applies where the new category 2 truck gets at least a combined 15 mpg and gets 1 mpg more than the “clunker.”

The \$4,500 rebate is available where the new passenger car gets at least a combined 10 mpg more than the trade-in car. For a category 1 truck this rebate applies where the new category 1 truck gets 5 mpg more than the trade-in vehicle. Finally, for a category 2 truck, the rebate applies where the new category 2 truck gets at least a combined 15 mpg and 2 mpg more than the “clunker.”

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