

Sales of Motor Vehicles to Nonresidents

Arizona Transaction Privilege Tax Procedure [TPP 08-1](#) provides guidance on four separate transaction privilege tax “exemptions” (technically: deductions from the retail seller’s tax base) under the retail sales classification that may apply to an Arizona seller’s sale of a motor vehicle to a nonresident of Arizona. All four of these exemptions rely upon the purchaser first qualifying as a nonresident of Arizona. Two of these exemptions are based on the particular state of residence of the purchaser. One exemption requires the seller’s documented out-of-state delivery of the motor vehicle to the nonresident. Qualification for all of these exemptions and documentation requirements, and other scenarios such as sales to nonresident military personnel stationed in Arizona and sales to Native American purchasers are thoroughly explained in [TPP 08-1](#).

Arizona Revised Statutes (A.R.S.) § 42-5061(U) provides an exemption for the sale of a motor vehicle to a nonresident who is from a state that has **both**:

- 1) a state use tax or other excise tax rate (applicable to vehicle purchases or registrations) that is **lower** than Arizona’s **5.6%** state transaction privilege tax rate, and
- 2) “tax reciprocity” with Arizona, meaning that the nonresident’s state will provide a credit against its tax for the Arizona state transaction privilege tax amount paid by the nonresident purchaser to the motor vehicle dealer at the time of the sale. (For the reverse situation, when an Arizona resident purchases a vehicle out-of-state and registers it in Arizona, Arizona provides a credit against the Arizona state use tax due for the state sales or excise taxes paid in another state on the vehicle purchase.)

This exemption has the mathematical effect of making the amount of Arizona state transaction privilege tax that is due on the sale, equal to the state tax that would be due in the nonresident purchaser’s state on a nonexempt sale. (It is important to note that exemptions from tax in another state’s tax code do not apply in Arizona.) Because the nonresident’s state will allow credit for the **state tax** paid in Arizona, there should not be a **state tax** liability when the vehicle is registered by the nonresident in his or her home state. A.R.S. § 42-5061(U) allows the nonresident to take possession of the vehicle in Arizona, but this exemption applies only to state transaction privilege tax and “piggybacking” county excise taxes. City privilege taxes apply in full to sale of a motor vehicle to a nonresident when the purchaser takes possession of the vehicle in Arizona. (The sole Arizona **city** privilege tax exemption for the sale of a motor vehicle to a qualifying nonresident requires the seller to deliver the vehicle to the nonresident purchaser **outside of Arizona**.)

The [Nonresident State Tax Rate Schedules](#) lists the states that both have a lower state tax rate than Arizona’s **5.6%** transaction privilege tax rate and provide a credit for state tax paid in Arizona. Also listed in the top grid are the states that do not impose a sales or excise tax; nonresidents from these states also qualify for the A.R.S. § 42-5061(U) exemption and will pay no state or county tax in Arizona. (For nonresidents from all of the other states that have a higher state tax rate than Arizona’s 5.6% transaction privilege tax rate *and* allow credit against their state excise taxes for the **state tax** paid in Arizona, the Arizona transaction privilege tax and all local taxes apply to the sale if the nonresident takes delivery of the vehicle in Arizona.)

For the reduced transaction privilege tax rate to apply under A.R.S. § 42-5061(U), the nonresident purchaser must complete [Arizona Form 5011](#) to establish residency in another U.S. State; obtain a Special 90-Day Nonresident Registration Permit from the seller; and allow the motor vehicle seller to make a copy of the nonresident’s current out-of-state driver’s license. (The driver license state of issuance is controlling as to the nonresident’s state.)

Calculation of Reduced Transaction Privilege Tax under A.R.S. § 42-5061(U):

To assist Arizona motor vehicle sellers to compute the reduced amount of state transaction privilege tax and county excise tax that will apply to the sale of the motor vehicle to a nonresident and also compute the correct deduction amounts to be taken on the *Transaction Privilege, Use and Severance Tax Return (Form TPT-2)*, the Department of Revenue has created two versions of a tax computation worksheet.

The [Nonresident State Tax Rate Schedules](#), which also includes a listing of Arizona county tax rates, are provided for use with both **Worksheet A/B** and **Worksheet C** to determine the correct amounts of state transaction privilege tax and county tax applicable to the sale of a motor vehicle that qualifies for full or partial tax exemption under A.R.S. § 42-5061(U). **NOTE:** The Department advises double-checking the numbers and the calculations on this worksheet as the Department cannot be held responsible for erroneous calculations.

On **Worksheet A/B**, the tax rates of the nonresident's state and Arizona county must be transferred to the blank or fillable worksheet, but all of the mathematical calculations must be completed by the seller. On **Worksheet C**, after inserting the sales price of the motor vehicle, drop-down menus allow the motor vehicle seller to choose the nonresident's state and the Arizona county in which the sale takes place, and this worksheet will automatically compute the tax and also the deduction amounts that will be taken on Form TPT-2.

- [Worksheet A/B](#) is a **blank** worksheet that can be either printed blank and completed manually, or completed online and then printed. *The motor vehicle seller must insert the sales price, nonresident state and Arizona county tax rates, and complete all mathematical calculations.* An example of completing the worksheet and Arizona Form TPT-1 (for a single sale) is included on this worksheet.
- [Worksheet C](#) is an **automatic computational** worksheet that can be printed. By simply entering the motor vehicle's taxable sales price and selecting the nonresident's state and the Arizona county in which the seller's business is located from the drop-down menus, the worksheet will calculate the tax and provide the amounts to place on Form TPT-2 for this sale. (Arizona is included as one of the states in the state drop-down menu in order to compare the tax savings.)

The Nonresident State Tax Rate Schedules also lists the states whose residents qualify for the following separate statutory exemption under the retail classification:

A.R.S. § 42-5061(A)(28)(a) provides an exemption from state transaction privilege tax and county excise tax for sales of motor vehicles to nonresidents from states that do not provide a credit for taxes paid in Arizona. (This Arizona state transaction privilege tax exemption prevents the nonresident purchaser from having to pay tax in both states.) This exemption and the documentation requirements for qualification are explained in [TPP 08-1](#).