

**RESEARCH STUDY ON  
MOTOR VEHICLE USAGE TAX**

**RESEARCH MEMORANDUM NO. 468**

**LEGISLATIVE RESEARCH COMMISSION**

**September, 1994**



# **RESEARCH REPORT ON MOTOR VEHICLE USAGE TAX**

**Prepared by:**

**Terry K. Jones**

**Research Memorandum No. 468**

**Legislative Research Commission  
September, 1994**

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**MEMORANDUM**

TO: Vic Hellard, Jr., Director  
Legislative Research Commission

FROM: Terry K. Jones

SUBJECT: Research Study on Motor Vehicle Usage Tax

DATE: September 22, 1994

The Legislative Research Commission approved a request that LRC staff and Revenue Cabinet officials jointly conduct a study of the current method of taxing used motor vehicles.

This memorandum presents the results of that study.

TKJ/kk

Enclosure



# **AN ANALYSIS OF THE METHOD USED TO DETERMINE "RETAIL PRICE" FOR THE LEVY OF THE MOTOR VEHICLE USAGE TAX ON USED MOTOR VEHICLES**

## **Introduction**

The levy and payment of taxes is an issue that is frequently discussed by citizens of the Commonwealth. The discussion normally focuses on the fairness and equity of the levy and payment of the tax. One area of particular concern that has been mentioned repeatedly to legislators, county clerks, and Revenue Cabinet officials is that the current method of taxing used motor vehicles is unfair because it results in the imposition of a tax on a value higher than that actually being paid by purchasers of used motor vehicles.

The current motor vehicle usage tax law provides that for used motor vehicles, "retail price" means the value for that make and model that appears in an automotive reference manual prescribed by the Revenue Cabinet. The Revenue Cabinet uses the average retail price compiled and published monthly by the National Automotive Dealers Association (NADA) to determine "retail price". "Retail price" is the value against which the motor vehicle usage tax is levied. Current law also provides for a trade-in-deduction equal to the "retail price" of the motor vehicle taken in trade, provided the motor vehicle being sold was previously registered in this state.

In response to these concerns, legislation was introduced during the last several regular sessions of the General Assembly attempting to alter the method for taxing used motor vehicles. However, none of the legislative proposals have been enacted, primarily because of the lack of credible data relating to the actual selling price of used motor vehicles in the Kentucky market. The lack of credible data left proponents of the legislative proposals unable to substantiate the validity of these concerns. In addition, the lack of data has made it very difficult to accurately analyze the fiscal implications of the adoption of any legislative changes. As a result, the Legislative Research Commission approved a request that LRC staff and Revenue Cabinet officials jointly conduct a study of the current method of taxing used motor vehicles.

The purpose of this study is to examine the actual selling price of used motor vehicles in the Kentucky market, so comparisons to the current method of valuing used motor vehicles can be made.

## **History**

Kentucky first taxed the sale of motor vehicles under the sales tax law enacted in 1934. Upon repeal of the sales tax in 1936, a special three percent sales or usage tax on motor vehicles was enacted. The tax was levied only upon transactions involving the registration of motor vehicles not previously registered in this state. The tax was collected by the county clerk, and was based upon the value of the vehicle the first time it was licensed in Kentucky. Used motor vehicles taxes were based on the vehicle values listed in an automotive reference manual prescribed by the Revenue Cabinet.

Originally, the receipts from the Motor Vehicle Usage tax were deposited in the General Fund. In 1945, those receipts were transferred from the General Fund to the Road Fund.

In 1960, with the enactment of the general sales and use tax law, the receipts from the sale of used motor vehicles previously registered in this state were subject to the three percent sales tax. A trade-in deduction was allowed in determining the receipts subject to tax. The tax was remitted and reported by the dealer on the monthly sales tax return. The receipts were deposited in the Road Fund.

Thus, from 1960 until 1968, used motor vehicles were being taxed two different ways under two different laws. If the used motor vehicle had never been registered in this state, then it was taxed under the motor vehicle usage tax law, based upon the value appearing in an automotive reference manual prescribed by the Revenue Cabinet, with no trade-in allowance allowed. If the used motor vehicle was previously registered in this state, then it was taxed under the sales and use tax law, on the basis of the actual sales price, with a deduction for the amount allowed by the dealer for a trade-in.

In 1968, when the sales tax rate was raised to five percent, the taxation of used motor vehicles previously registered in this state was transferred from the sales and use tax law to the motor vehicle usage tax law. The taxation of first time licensed used motor vehicles and used motor vehicles previously registered in this state were combined under one statute and retained some features of both laws. The tax rate was set at five percent of the value of the used motor vehicle. This value was determined from an automotive reference manual prescribed by the Revenue Cabinet. The tax was collected by the county clerk and a trade-in deduction was allowed, provided that the used motor vehicle being traded was previously registered in this state.

In 1990 the tax rate on motor vehicles was raised from five percent to six percent.

### **Methodology**

The Automated Vehicle Information System (AVIS) is a computer database authorized and created in 1976 for the registration and titling of motor vehicles. The county clerks have on line access to the system to input first time registration and other motor vehicle transfer information. One of the purposes of the AVIS was to improve the collection of the motor vehicle usage tax.

The AVIS database contains all the necessary information on used motor vehicle transactions to analyze the current method of taxing used motor vehicles except the actual cash consideration. The actual cash consideration given or received for a used motor vehicle can only be obtained from the buyer or seller of the motor vehicle.

A computer program was written to run against the AVIS database to build a database transaction file of used motor vehicle transfers during a three-month period, as



entered by county clerks. Certain types of transactions were eliminated from the database: new car registrations, dealer transfers, salvage titles, exempt transactions (parent to child, for example), and transactions in which a trade-in deduction was allowed. These used motor vehicle transactions were eliminated since they would not provide a true picture of the used motor vehicle market in Kentucky.

From this database, a random sample of 4,000 motor vehicle transactions was generated, matching both the seller and buyer information. The information extracted included the make, model, model year, mileage, NADA value, social security or identification number, vehicle identification number, and buyer and seller name and address.

Another program was written which generated a form letter to be mailed to the seller and buyer of the motor vehicle, asking for the actual cash consideration given or received for the motor vehicle. Two thousand of the used motor vehicle transactions were selected for the mailing. The letter sent to each buyer and seller explained that the purpose of the questionnaire was to conduct a study to determine the accuracy of the current method of taxing used motor vehicles. A postage paid return envelope was provided, in order to enhance the response rate of the survey.

The response information was then entered into a personal computer, along with the information built from the AVIS database for that particular used motor vehicle, to allow the data to be statistically manipulated to produce the survey results.

### **Study Results**

The survey results are being presented in five parts.

PART 1 presents the random sample of 2,000 used motor vehicle transactions survey response results.

PART 2 presents the results from the data compiled from the seller responses.

PART 3 presents the results from the data compiled from the buyer responses.

PART 4 presents the results compiled from the data received from both seller and buyer responses for the same used motor vehicle transaction.

PART 5 presents the data compiled from a high and low mileage adjustment computer tape submitted by the NADA for the sample of 4,000 used motor vehicle transactions. Kentucky currently does not adjust the NADA value for high or low mileage. NADA does provide for an adjustment to average "retail price" for high or low mileage to the NADA value. The NADA tape was obtained too late and lacked the necessary used motor vehicle identification information to be incorporated into the study survey results. However, these results are being presented as a separate part, because mileage is certainly a factor that must be considered in determining the value of used motor vehicles.

**Part 1**  
**Survey Response Results**

From the random sample of 2,000 used motor vehicle transactions, 4,000 questionnaires were mailed and over 1,500 responses were received. Table I details the number of questionnaires mailed out by the model year of the motor vehicle and the response rate received from the seller and the buyer.

**Table I**  
**Questionnaire Response Results**

Model Year	Vehicle Transactions Mailed	Seller Responses Received	Percentage of Seller Responses	Buyer Responses Received	Percentage of Buyer Responses
1992	161	99	61.5%	59	36.6%
1991	172	83	48.3%	56	32.6%
1990	226	107	47.3%	70	31.0%
1989	279	144	51.6%	96	34.4%
1988	363	168	46.3%	124	34.2%
1987	366	163	44.5%	99	27.0%
1986	433	186	43.0%	117	27.0%
Total	2000	950	47.5%	621	31.0%

**Part 2**  
**Seller Responses**

Tables II through IV detail the statistical data compiled from the seller responses.

Table II compares the average NADA value by model year to the average reported actual cash consideration received by sellers for that model year. The table shows that on average, the later the model of the used motor vehicle, the closer the actual value of the vehicle in Kentucky to the NADA value. The table also shows that of the 950 used motor vehicle questionnaires returned, sellers reported receiving on average 88.2% of the average NADA value for those vehicles.

**Table II**  
**Average NADA Value Compared To Average Reported Cash Price Received By Sellers**

Model Year	Number of Vehicle Transactions	Average NADA Value	Average Cash Price Reported	Average Difference	Average % of NADA Value
1992	99	\$12,774	\$11,798	(\$ 976)	92.4%
1991	83	\$10,773	\$ 9,679	(\$1,094)	89.8%
1990	107	\$ 9,694	\$ 8,755	(\$ 939)	90.3%

Model Year	Number of Vehicle Transactions	Average NADA Value	Average Cash Price Reported	Average Difference	Average % of NADA Value
1989	144	\$ 6,885	\$ 5,959	(\$ 926)	86.6%
1988	168	\$ 5,433	\$ 4,746	(\$ 687)	87.4%
1987	163	\$ 4,425	\$ 3,744	(\$ 681)	84.6%
1986	186	\$ 3,636	\$ 3,005	(\$ 631)	82.6%
Total	950	\$ 6,840	\$ 6,034	(\$ 806)	88.2%

Tables III and IV display the same seller-response data compiled from Table II, except that Table III is information from sellers who reported receiving less than the NADA value, while Table IV looks at data from sellers who reported receiving more than the NADA value. Of 950 responses, 691, or 72.7%, reported receiving less than the NADA value, as reflected in Table III, and 259, or 27.3%, reported receiving more than the NADA value, as reflected in Table IV.

**Table III**  
**Price Received By Sellers**  
**Reporting Less Than NADA Value**

Model Year	Number of Vehicle Transactions	Average NADA Value	Average Cash Price Reported	Average Difference	Average % of NADA Value
1992	76	\$13,376	\$11,834	(\$1,542)	88.5%
1991	57	\$11,169	\$ 9,141	(\$2,028)	81.8%
1990	74	\$10,077	\$ 8,281	(\$1,796)	82.2%
1989	106	\$ 6,924	\$ 5,406	(\$1,518)	78.1%
1988	113	\$ 5,704	\$ 4,352	(\$1,352)	76.3%
1987	121	\$ 4,406	\$ 3,161	(\$1,245)	71.7%
1986	144	\$ 3,606	\$ 2,541	(\$1,065)	70.5%
Total	691	\$ 6,990	\$ 5,566	(\$1,424)	79.6%

**Table IV**  
**Average NADA Value Compared To Reported Cash Price**  
**Received By Sellers Reporting More Than NADA Value**

Model Year	Number of Vehicle Transactions	Average NADA Value	Average Cash Price Reported	Average Difference	Average % of NADA Value
1992	23	\$10,785	\$11,676	\$891	108.3%
1991	25	\$ 9,903	\$10,894	\$991	110.0%
1990	33	\$ 8,836	\$ 9,819	\$983	122.9%
1989	38	\$ 6,640	\$ 7,376	\$736	111.1%
1988	55	\$ 4,875	\$ 5,554	\$679	113.9%
1987	43	\$ 4,477	\$ 5,424	\$947	121.2%
1986	42	\$ 3,826	\$ 4,704	\$878	122.9%
Total	259	\$ 6,420	\$ 7,272	\$852	113.2%

**Part 3**  
**Buyer Responses**

Tables V through VII present the statistical data compiled from buyer responses.

Table V compares the average NADA value by model year to the average reported actual cash consideration paid by buyers for that model year. The table shows that on average, the later the model of the used motor vehicle, the closer the actual value in Kentucky to the NADA value. The table also shows that of the 621 used motor vehicle questionnaires returned, buyers reported paying 87.6% of the average NADA value for those vehicles.

**Table V**  
**Average NADA Value Compared To**  
**Reported Cash Price Paid By Buyers**

Model Year	Number of Vehicle Transactions	Average NADA Value	Average Cash Price Reported	Average Difference	Average % of NADA Value
1992	59	\$12,966	\$11,932	(\$1,034)	92.0%
1991	56	\$11,050	\$ 9,717	(\$1,333)	87.9%
1990	70	\$ 9,289	\$ 8,304	(\$ 985)	89.4%
1989	96	\$ 6,918	\$ 6,085	(\$ 833)	88.0%
1988	124	\$ 5,771	\$ 4,932	(\$ 839)	85.5%
1987	99	\$ 4,449	\$ 3,845	(\$ 604)	86.4%
1986	117	\$ 3,845	\$ 3,100	(\$ 745)	80.6%
Total	621	\$ 6,931	\$ 6,068	(\$ 863)	87.6%

Tables VI and VII display the same buyer response data compiled from Table V, except that Table VI outlines information provided by buyers who reported paying less than the NADA value, while Table VII looks at data from buyers who reported paying more than the NADA value. Of 621 responses, 462, or 74.4%, reported paying less than the NADA value, as reflected in Table VI, and 159, or 25.6%, reported paying more than the NADA value, as reflected in Table VII.

**Table VI**  
**Average NADA Value Compared To**  
**Reported Cash Price By Buyers Reporting**  
**Paying Less Than NADA Value**

Model Year	Number of Vehicle Transactions	Average NADA Value	Average Cash Price Reported	Average Difference	Average % of NADA Value
1992	44	\$13,990	\$12,277	(\$1,713)	87.8%
1991	43	\$11,060	\$ 9,051	(\$2,009)	81.8%
1990	50	\$ 9,766	\$ 7,921	(\$1,845)	81.1%
1989	69	\$ 7,055	\$ 5,621	(\$1,434)	79.7%
1988	93	\$ 5,701	\$ 4,359	(\$1,342)	76.5%
1987	72	\$ 4,461	\$ 3,176	(\$1,285)	71.2%
1986	91	\$ 3,683	\$ 2,935	(\$ 748)	79.7%
Total	462	\$ 7,041	\$ 5,659	(\$1,382)	80.4%

**Table VII**  
**Average NADA Value Compared To**  
**Reported Cash Price Paid By Buyers Reporting**  
**Paying More Than NADA Value**

Model Year	Number of Vehicle Transactions	Average NADA Value	Average Cash Price Reported	Average Difference	Average % of NADA Value
1992	15	\$12,557	\$13,306	\$ 749	106.0%
1991	13	\$11,017	\$11,921	\$ 904	108.2%
1990	20	\$ 8,096	\$ 9,229	\$1,133	114.0%
1989	27	\$ 6,568	\$ 7,270	\$ 702	110.7%
1988	31	\$ 5,981	\$ 6,649	\$ 668	111.2%
1987	27	\$ 4,585	\$ 5,559	\$ 974	121.2%
1986	26	\$ 3,813	\$ 4,352	\$ 539	114.1%
Total	159	\$ 6,787	\$ 7,577	\$ 790	111.1%

**Part 4**  
**Seller And Buyer Responses Received On**  
**The Same Used Motor Vehicle Transaction**

Tables VIII through X display the statistical data compiled from the seller and buyer responses in which both a seller and buyer response was received for the motor vehicle transaction. Of the 1,571 responses received, 329, or 20.9%, were for motor vehicle transactions in which both the seller and buyer responded.

Table VIII shows that of the 329 responses, 151, or 45.9%, reported the same cash price being paid or received. The average price reported was 84.7% of the average NADA value.

**Table VIII**  
**Seller And Buyer Response Reporting**  
**The Same Cash Price**

Model Year	Number of Vehicle Transactions	Average NADA Value	Average Difference in Reported Price Paid	Sellers' Avg. NADA Value	Buyers' Avg. of NADA Value
1992	10	\$14,468	\$0	91.8%	91.8%
1991	17	\$12,737	\$0	88.4%	88.4%
1990	14	\$10,505	\$0	88.9%	88.9%
1989	31	\$ 6,958	\$0	80.2%	80.2%
1988	31	\$ 5,314	\$0	83.7%	83.7%
1987	29	\$ 4,290	\$0	77.5%	77.5%
1986	19	\$ 3,580	\$0	77.4%	77.4%
Total	151	\$ 6,759	\$0	84.7%	84.7%

Of the 329 responses received, 81, or 24.6%, of the sellers reported receiving a cash price higher than the buyer reported paying for the same used motor vehicle. On average, the sellers reported receiving \$601 more than the buyer reported paying. On average, the sellers reported receiving 92.4% of the average NADA value and buyers reported paying 83.6% of the average NADA value. Table IX presents this information.

**Table IX**  
**Average NADA Value Compared To Reported Cash Price**  
**When Sellers Reported Receiving More**  
**Than Buyers Reported Paying**

Model Year	Number of Vehicle Transactions	Average NADA Value	Average Difference in Reported Price Paid	Sellers' Avg. NADA Value	Buyers' Avg. of NADA Value
1992	9	\$13,378	\$1,188	91.8%	82.3%
1991	8	\$12,737	\$ 734	86.4%	78.0%
1990	13	\$10,144	\$ 773	93.6%	86.0%
1989	8	\$ 7,116	\$ 149	106.0%	94.4%
1988	18	\$ 6,488	\$ 637	88.0%	78.2%
1987	12	\$ 4,667	\$ 174	96.3%	91.2%
1986	13	\$ 4,633	\$ 487	93.6%	83.1%
Total	81	\$ 7,952	\$ 601	92.4%	83.6%

Of the 329 responses received, 97, or 29.5%, of the sellers reporting receiving a cash price lower than the buyer reported paying for the same used motor vehicle. On average, the sellers reported receiving \$1,136 less than the buyer reported paying. On average, the sellers reported receiving 84.4% of the average NADA value and buyers reported paying 92.2% of the average NADA value. Table X contains this information.

**Table X**  
**Average NADA Value Compared To Reported Cash Price**  
**When Sellers Reported Receiving Less Than Buyers Reported Paying**

Model Year	Number of Vehicle Transactions	Average NADA Value	Average Difference in Reported Price Paid	Sellers' Avg. NADA Value	Buyers' Avg. of NADA Value
1992	16	\$14,488	(\$1,193)	88.0%	94.9%
1991	5	\$10,572	(\$1,343)	78.0%	86.4%
1990	13	\$ 9,887	(\$ 869)	81.9%	90.7%
1989	16	\$ 5,744	(\$ 606)	92.3%	94.4%
1988	19	\$ 4,729	(\$ 374)	78.2%	88.0%
1987	8	\$ 4,840	(\$ 697)	85.6%	94.0%
1986	20	\$ 3,611	(\$ 468)	78.9%	91.8%
Total	97	\$ 7,277	(\$1,136)	84.4%	92.2%

**Part 5**  
**NADA Mileage Adjustment**

Table XI presents the results, obtained by model year and in total, from the comparison of the NADA value of the sample of 4,000 used motor vehicles with the NADA mileage adjustment value. In total, this mileage adjustment resulted in a NADA value increase of an average of \$509, or 107.2%, of the average NADA value for 41.6% of the vehicles, and a NADA value decrease of an average \$793, or 87.5%, of the average of NADA value for 52.6% of the vehicles. The NADA value did not change for 5.8% of the vehicles.

**Table XI**  
**NADA Value Adjustment Based On Mileage**

Model Year	Type of Mileage Adjustment	% of Vehicles	Average NADA Value	Average Adjusted NADA Value	Average Difference	Average % Change of NADA
1992	More	50.3%	\$12,690	\$12,935	\$ 245	101.9%
	Less	41.0%	\$13,310	\$12,721	(\$581)	94.6%
	Same	8.7%	\$12,446	\$12,446	\$ 0	0.0%
	Total 1992	100.0%	\$12,923	\$12,804	(\$119)	99.1%
1991	More	42.4%	\$10,654	\$10,940	\$ 286	102.7%
	Less	51.0%	\$10,805	\$ 9,820	(\$985)	90.1%
	Same	6.6%	\$10,421	\$10,421	\$ 0	0.0%
	Total 1991	100.0%	\$10,715	\$10,335	(\$380)	96.4%
1990	More	48.4%	\$ 8,864	\$ 9,308	\$ 444	105.0%
	Less	45.8%	\$ 8,820	\$ 7,900	(\$919)	89.6%
	Same	5.8%	\$ 9,282	\$ 9,282	\$ 0	0.0%
	Total 1990	100.0%	\$ 8,868	\$ 8,662	(\$206)	97.7%
1989	More	44.0%	\$ 7,319	\$ 7,832	\$ 512	107.0%
	Less	52.1%	\$ 6,890	\$ 6,028	(\$862)	87.5%
	Same	3.9%	\$ 7,569	\$ 7,569	\$ 0	0.0%
	Total 1989	100.0%	\$ 7,105	\$ 6,882	\$ 223	96.9%
1988	More	41.6%	\$ 5,849	\$ 6,420	\$ 570	109.7%
	Less	54.1%	\$ 5,625	\$ 4,735	(\$890)	84.2%
	Same	4.3%	\$ 5,468	\$ 5,468	\$ 0	0.0%
	Total 1988	100.0%	\$ 5,712	\$ 5,467	(\$245)	95.7%



Model Year	Type of Mileage Adjustment	% of Vehicles	Average NADA Value	Average Adjusted NADA Value	Average Difference	Average % Change of NADA
1987	More	38.2%	\$ 4,536	\$ 5,162	\$ 625	113.8%
	Less	56.5%	\$ 4,367	\$ 3,645	(\$722)	83.5%
	Same	5.3%	\$ 4,584	\$ 4,584	\$ 0	0.0%
	Total 1987	100.0%	\$ 4,443	\$ 4,274	(\$169)	96.2%

1986	More	35.3%	\$ 3,702	\$ 4,358	\$ 657	117.7%
	Less	57.7%	\$ 3,649	\$ 2,983	(\$666)	81.7%
	Same	7.0%	\$ 3,663	\$ 3,663	\$ 0	0.0%
	Total 1986	100.0%	\$ 3,669	\$ 3,516	(\$153)	95.8%

All Years	More	41.6%	\$ 7,036	\$ 7,545	\$ 509	107.2%
	Less	52.6%	\$ 6,400	\$ 5,607	(\$793)	87.6%
	Same	5.8%	\$ 6,935	\$ 6,935	\$ 0	0.0%
	Total	100.0%	\$ 6,695	\$ 6,490	(\$206)	96.9%

### Summary

Our investigation indicates that Kentucky's method for assessing used motor vehicles would be closer to actual consideration paid if the NADA high and low mileage adjustments were adopted. Of course variations will continue to exist in almost every case; however, the amount of variation should be significantly reduced.

Our study has found that on average, used motor vehicles are bought and sold in Kentucky at less than the NADA average retail value. A significant majority of both buyers and sellers reported paying and receiving less than the NADA retail value. In general, later models are traded closer to the NADA retail value than older models. It may be that mileage plays a more important role in the sale price as the car ages, with a greater premium for low mileage and a greater discount for high mileage. There is no doubt that mileage is an important factor considered by both buyers and sellers in determining the price of used motor vehicles. The fact that NADA makes adjustments for high and low mileage reinforces this belief.

As long as Kentucky continues to use a method of valuation that assesses used motor vehicles based on a value other than actual purchase price, there will be variations, and buyers will continue to question the fairness of the tax where the purchase price is significantly less than the NADA average retail value. However, a method of valuation based on the actual purchase price without a reliable method of verification could lead to significant tax equity questions that could undermine the tax, as witnessed by the significant number of buyers and sellers reporting different amounts being paid or received for the same used motor vehicle. Some of these differences may be attributable to a

difference of opinion by the buyer and seller of what was actually part of the price paid or received for the used motor vehicle. For example, did the price include charges that may have been added by a seller for transferring the title and license, or vehicle preparation, and if so, did the buyer or seller consider these charges part of the sales price?



