

Used Vehicle Dealers Pay Sales Tax to DMV Phase 3

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New Information

Effective January 1, 2026, new legislation authorizes used vehicle dealers that are **not** currently paying sales tax to the Department of Motor Vehicles (DMV) and have had fewer than 1,000 retail vehicle sales in the prior calendar year to change their tax payment method.

Assembly Bill (AB) 85 required certain used vehicle dealers to pay sales tax when a vehicle registration or transfer application is submitted to DMV, beginning January 1, 2021.

Impacted used vehicle dealers who are required to pay sales tax to DMV beginning January 1, 2026:

- Were notified by mail (see attachment).
- Have submitted applications (registration/transfer) that DMV has finalized and are deemed as a tax return filed with the California Department of Tax and Fee Administration (CDTFA) for sales made on or after July 1, 2025.
- Are responsible for determining the correct sales tax rate, calculating and collecting the appropriate sales tax amount, and remitting sales tax to DMV, unless exempted by CDTFA.

Phase	Effective Date	Dealers Impacted
1	January 1, 2021	• Were licensed by DMV in the last 2 years. • Had a finding of underreporting in the last 2 years. • Reinstated their seller's permit in the last 2 years.
2	January 1, 2023	Used motor vehicle dealers not previously phased in, with 300 or fewer retail vehicle sales in the previous calendar year.
3	January 1, 2026	• Used vehicle dealers not previously phased in with 301-999 retail vehicle sales in the previous calendar year. • Used vehicle dealers not in good standing with CDTFA.

Procedures

Programming is in place to identify impacted dealers and dealer sale transactions that are subject to payment of sales tax to DMV, based on the dealer number keyed.

If error message D205-DEALER # NOT IN X-REF FILE OR SYSTEM UNABLE TO READ RECORD is displayed in Virtual Clerk, Business Partner Program (BPA) participants should contact their first line service provider (FLSP) for guidance/to have the dealer number added to the cross-reference file.

Procedures, *continued*

Continue to follow procedures in the:

- *Vehicle Industry Registration Procedures Manual*, Chapters 4, 8, and 11.
- VIN 2020–16 Used Vehicle Dealers Pay Sales Tax to DMV

Background

Effective January 1, 2021, legislation requires certain licensed used vehicle dealers to remit applicable sales tax for vehicle sales directly to DMV at the time the dealer submits the vehicle registration or transfer application to DMV. DMV is required to transmit all sales tax collected on completed transactions to CDTFA.

References

Revenue and Taxation Code §6295

Assembly Bill 85 (Chapter 8, Statutes of 2020)

Senate Bill (SB) 132 (Chapter 17, Statutes of 2025)

Senate Bill 1496 (Chapter 474, Statutes of 2022)

Vehicle Industry Registration Procedures Manual, Chapter 4

VIN 2023–01 Used Vehicle Dealers Pay Sales Tax to DMV- Phase 2

VIN 2021–06 Revised FO 247

VIN 2020–16 Used Vehicle Dealers Pay Sales Tax to DMV

Distribution

Notification of this memo (available at **dmv.ca.gov** by searching Vehicle Industry Services) was sent through the California DMV Automated Email Alert System in January 2026 to:

- Dealers
- Registration Services

Contact

Questions related to tax laws (AB 85/SB 132) and how they impact DMV transactions should be directed to **dmvtaxinq@dmv.ca.gov**.

Attachment

Sample Notification to Dealers Phased-in Effective January 01, 2026**Important Tax Notice for Used Vehicle Dealers**

You are receiving this notification because you have been identified as a dealer required to submit sales tax directly to the DMV beginning January 1, 2026.

A law passed in 2020 requires dealers exclusively licensed to sell used motor vehicles to change how they pay sales and district tax beginning January 1, 2021. The law requires used vehicle dealers to pay the sales tax directly to the Department of Motor Vehicles (DMV) at the same time they submit a vehicle registration/transfer application. Implementation of the payment method change will occur in phases as follows:

Phase	Effective Date	Dealers Impacted
Phase 1	January 1, 2021	Used motor vehicle dealers licensed by the DMV during the last 2 years, had a finding of underreporting in the last 2 years or reinstated their seller's permit in the last 2 years.
Phase 2	January 1, 2023	Used motor vehicle dealers not previously phased in with 300 or fewer retail vehicle sales in the previous calendar year.
Phase 3	January 1, 2026	Used vehicle dealers not previously phased in, not paying taxes to the DMV that had 301-999 retail vehicle sales in the previous calendar year or used vehicles dealers not in good standing with CDTFA.
Used vehicle sales exemptions from the requirements include: - vehicles not required to be registered, such as off-road vehicles and boats - dealers who sell both new and used vehicles, and dealers who sell trailers		

Applications (registration/transfer) submitted by dealers and finalized by the DMV will be deemed a tax return filed with the California Department of Tax and Fee Administration (CDTFA) for sales made on or after July 1, 2025.

More information is available at dmv.ca.gov and cdtfa.ca.gov.