

2026: Trade-In Sales Tax Exemption Examples for Dealers

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A significant factor affecting the sales tax owed on a vehicle purchase is whether the dealer accepts a trade-in as part of the transaction. Michigan and many other states allow for a reduction of the price subject to sales tax by the value of a vehicle traded in toward the purchase of another vehicle.

Michigan trade-in allowances for calendar year 2026 are as follows:

- **Motor Vehicles:** \$12,000 or the agreed-upon value of a motor vehicle (whichever is less). This tax reduction is only applicable on a motor vehicle traded in for the purchase of a new or used motor vehicle or recreational vehicle from a licensed dealer. The tax-exempt motor vehicle trade-in allowance is scheduled to increase \$1,000 per year on January 1st until it exceeds \$14,000; beginning January 1, 2029, there will be no trade-in allowance dollar limit and Michigan will become a full value trade-in state.
- **Recreational Vehicles:** There is no dollar limit on the agreed-upon trade-in value of a recreational vehicle. This tax reduction is only applicable on a recreational vehicle traded in for the purchase of a new or used recreational vehicle from a licensed dealer.

The examples below illustrate how to calculate the taxable sales price for both motor vehicle and recreational vehicle trade-in scenarios. In all examples, it is assumed that the agreed-upon trade-in value is separately stated on the invoice, bill of sale, or similar document provided to the purchaser.

The content of this handout is not prescriptive and therefore does not carry the weight of law, bulletins, or rulings. Therefore, it should only be used as an aid for understanding concepts.

For questions or situation-specific guidance, contact the Business Tax Technical Services unit at (517) 636-4230, Option 3.



Motor vs. Recreational Vehicles

Below are common examples of motor and recreational vehicles, as defined in Michigan Compiled Laws (MCLs) 257.33 and 257.49a. For additional information, please review [Revenue Administrative Bulletin \(RAB\) 2022-17](#).

Examples of Motor Vehicles

- Coupe
- Sedan
- Station Wagon
- SUV
- Truck
- Van
- Motorcycle
- Snowmobile
- All-Terrain Vehicle (ATV)
- Offroad Vehicle (ORV)
- Side-by-Side

Examples of Recreational Vehicles

- Motorhome Types A, B, and C
- Sleeper Bus
- Camper Van
- Compact Camper Van
- A-Frame
- Teardrop Camper
- Pop-Up Camper
- Pickup Camper
- 5th Wheel Trailer
- Horse trailer with living quarters

Motor Vehicle Trade-In Toward a Motor Vehicle Purchase

Example 1

Scenario:

Customer trades in a motor vehicle valued at \$8,000 toward the purchase of a \$30,000 motor vehicle.

Calculation:

Motor Vehicle Sales Price	\$30,000
- Motor Vehicle Trade-In Allowance	\$8,000
Tax Base	\$22,000
× MI Sales Tax Rate	6%
Tax Due	\$1,320

Conclusion:

Because the agreed upon trade-in value falls below the \$12,000 cap for 2026, the full \$8,000 can be deducted from the sales price for sales tax calculations.

Example 2

Scenario:

Customer trades in a motor vehicle valued at \$16,000 toward the purchase of a \$30,000 motor vehicle.

Calculation:

Motor Vehicle Sales Price	\$30,000
- Motor Vehicle Trade-In Allowance	\$12,000
Tax Base	\$18,000
× MI Sales Tax Rate	6%
Tax Due	\$1,080

Conclusion:

While the agreed upon trade-in value is \$16,000, the tax-exempt portion of the trade-in is capped at \$12,000 for 2026. Therefore, \$12,000 is deducted from the sale price to calculate the 6% sales tax.

Example 3

Scenario:

Customer trades in a motor vehicle valued at \$12,000 toward the purchase of a \$10,000 motor vehicle.

Calculation:

Motor Vehicle Sales Price	\$10,000
- Motor Vehicle Trade-In Allowance	\$10,000
Tax Base	\$0
× MI Sales Tax Rate	6%
Tax Due	\$0

Conclusion:

While the trade-in meets the \$12,000 cap for 2026, the motor vehicle being purchased costs less than that. In these cases, the trade-in allowance for sales tax purposes can only be as high as the cost of the vehicle being purchased.

Motor Vehicle Trade-In Toward a Recreational Vehicle Purchase

Example 1

Scenario:

Customer trades in a motor vehicle valued at \$20,000 toward the purchase of a \$70,000 recreational vehicle.

Calculation:

Recreational Vehicle Sales Price	\$70,000
- Motor Vehicle Trade-In Allowance	\$12,000
Tax Base	\$58,000
× MI Sales Tax Rate	6%
Tax Due	\$3,480

Conclusion:

While the agreed upon trade-in value is \$20,000, the tax-exempt allowance is capped at \$12,000 for 2026. Therefore, the 6% sales tax is applied to a \$58,000 tax base, resulting in \$3,480 sales tax due.

Recreational Vehicle Trade-In Toward a Motor Vehicle Purchase

Example 1

Scenario:

Customer trades in a recreational vehicle valued at \$70,000 toward the purchase of a \$20,000 motor vehicle.

Calculation:

Motor Vehicle Sales Price	\$20,000
- Recreational Vehicle Trade-In Allowance	\$0
Tax Base	\$20,000
× MI Sales Tax Rate	6%
Tax Due	\$1,200

Conclusion:

There is no trade-in allowance when a recreational vehicle is traded in for a motor vehicle. Therefore, the 6% sales tax applies to the full sales price of the motor vehicle.

Recreational Vehicle Trade-In Toward a Recreational Vehicle Purchase

Example 1

Scenario:

Customer trades in a recreational vehicle valued at \$70,000 toward the purchase of an \$80,000 recreational vehicle.

Calculation:

Recreational Vehicle Sales Price	\$80,000
- Recreational Vehicle Trade-In Allowance	\$70,000
Tax Base	\$10,000
× MI Sales Tax Rate	6%
Tax Due	\$600

Conclusion:

When a recreational vehicle is traded in for another recreational vehicle, there is no limit to the trade-in allowance. Therefore, the full agreed upon trade-in value of \$70,000 applies to the sales tax calculation of the recreational vehicle purchase.

Example 2

Scenario:

Customer trades in a recreational vehicle valued at \$50,000 toward the purchase of a \$40,000 recreational vehicle.

Calculation:

Recreational Vehicle Sales Price	\$40,000
- Recreational Vehicle Trade-In Allowance	\$40,000
Tax Base	\$0
× MI Sales Tax Rate	6%
Tax Due	\$0

Conclusion:

Because the tax base cannot be a negative number, the trade-in allowance for the recreational vehicle can only be as high as the purchased vehicle price.