

Cash for Clunkers: What You Need to Know

Updated on July 24, 2009.

THE CONTROVERSIAL "CASH FOR CLUNKERS" bill went into effect Friday, offering car owners up to \$4,500 to trade in their old "clunkers" for new, fuel-efficient vehicles.

Don't get too excited, though. "This legislation will apply to relatively few people," says Jack Nerad, executive market analyst at Kelley Blue Book. "It's got to be people who have a vehicle that's licensed and running and is worth less than \$4,500."

For those who think their car may still fit the bill, here's what you need to know:

What types of vehicles qualify for trading in under the Cash for Clunkers program?

The car you trade in must be in drivable condition and insured for at least a year. It must have been manufactured in 1984 or later and, in the case of an automobile, have a combined fuel economy value of 18 miles per gallon (mpg) or less.

How much is the credit?

If you trade in your car for the purchase or lease of a new one that has at least 4 mpg better fuel economy than your old one, you'll receive \$3,500. The credit goes up to \$4,500 if the new car's combined fuel economy is at least 10 mpg higher. (You can look up fuel economy ratings [at *fueleconomy.gov*](http://www.fueleconomy.gov).)

The requirements are lower for trucks and SUVs: A new small truck or SUV must get at least 2 mpg more than the old one to get a \$3,500 credit; 5 mpg for a \$4,500 credit. For large light-duty trucks (6,000-8,500 pounds), the old one must be rated 18 mpg or less and the new one must get at least 1 mpg better for the \$3,500 credit and 2 mpg better for the \$4,500 credit. Since work trucks (8,500-10,000 pounds) don't have fuel economy ratings, the legislation goes by model year: The old truck must be from 2002 or before to qualify for a \$3,500 credit.

Will the credit be considered part of my trade-in value?

In a way, the credit actually is your trade-in value, says Nerad. After a car is turned in, the dealer will be required to hand it over to the government. Dealers are prohibited from selling, leasing or using these cars, which means they won't give you a penny more than the "clunker" credit you're due from the government.

Do I have to buy a new car? If so, are there any limits on the type of car I can buy?

Yes, you must buy a new car with a manufacturer's suggested retail price no higher than \$45,000. New passenger automobiles must have a fuel economy value of at least 22 mpg. Small trucks and SUVs must be rated 18 mpg or better and large light-duty trucks must be rated 15 mpg or better.

Can I lease the new car?

Yes, the credit can be used to offset the lease price (or capital cost) of a new vehicle. But to qualify, the lease term must be for five years or longer -- and most people lease for 36 to 39 months, says Tarry Shebesta, owner of LeaseCompare.com, a web site that offers quotes for auto financing and leases. "We don't recommend leasing for five years -- not unless you're absolutely sure you'll be driving this car for that long," he says.

Do I qualify if I'm currently leasing a car that I want to trade in?

When you lease a car you don't own it -- the financing institution does. So you don't qualify for the credit.

How do I go about trading in my "clunker" for a new car?

Assuming you qualify and the transaction makes sense, you have to find a participating dealership, Nerad says. The dealer will use the credit to offset the purchase or lease price of the vehicle, in addition to any other manufacturer incentives that may be offered on the new car you're buying. (You won't actually see the money -- or even the "voucher" that is mentioned in the legislation. The dealer will apply the credit as cash from the buyer and will later get reimbursed by the government.)

Can I combine this credit with other government credits?

Yes. If you are purchasing a hybrid vehicle, for example, you may qualify for a tax credit (click [here](#)² to see which vehicles qualify.) You may also qualify to deduct state and local sales taxes paid on the new car.

How long will this program be in effect?

To qualify for the credit, the new vehicle must be purchased between July 1 and Nov. 1, 2009.

¹<http://www.fueleconomy.gov>

²<http://www.smartmoney.com/personal-finance/taxes/Collect-Vehicle-Tax-Breaks-While-You-Still-Can/?hpadref=1>

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