

Junk a clunker, get a credit. The Car Allowance Rebate System (cars.gov) is ready to roll. Friday, July 24 was the day that auto dealers could start registering for the Obama administration's plan to get gas guzzlers off the highways through new car buyer incentives.¹

Save \$3,500, \$4,500, or maybe even \$9,000 if your car qualifies. That's how much you may be able to chop off the sticker price of a new, more fuel-efficient car. Chrysler is offering you another \$4,500 through August 31 (in cash or in 0% financing for 72 months through GMAC Financial Services) on top of the \$3,500 or \$4,500 credit from the government.^{1,2} Other automakers may chime in with supplemental incentives before the program ends.

Think old trucks and SUVs (but not too old). Your clunker has to be from 1984 or newer, and it has to get 18 MPG or less when you combine the highway/city numbers. (How do you find out the MPG of your make and model? You can use the New Combined EPA MPG ratings at either fueleconomy.gov or cars.gov.) So for example, a 1992 Honda Civic or a 1995 Saturn SL is not eligible by that MPG yardstick. However, the prospects sure look promising for a 1989 Chevy Suburban.^{3,4}

Whatever car you buy has to meet federal fuel efficiency requirements and have an MSRP of \$45,000 or less. (No Lamborghinis.) If you're trading in a passenger car, you get the \$3,500 credit if you buy a new vehicle that gets 4 MPG more than your old car. The \$4,500 credit is yours if your new car gets 10 MPG or better than the old one.¹

The standards are a little more lenient if you are bringing in a big clunker – a minivan, truck, or SUV. (Even large work trucks weighing 6,000+ lbs. may be traded in under the program.) In the case of these larger vehicles, you get a \$3,500 rebate if you buy a new vehicle getting at least 2 MPG better than the trade-in. If the new vehicle will get 5 MPG or more than the trade-in, you can qualify for the \$4,500 credit.¹

Is this really so green? It is possible to use the credit to buy a new truck or SUV with gas mileage just slightly better than the old one. Yet you may not use the credit to buy a used hybrid – or for that matter, a used anything.

Trade-in value, too? No, you don't get to apply trade-in value toward the purchase of the new car in addition to the government credit.⁵ Still, if you've got a \$1,000 or \$2,000 car chugging around, this program could give you the equivalent of real trade-in value.

Your old junker will be destroyed, not resold or parted out. In fact, the dealership will drain the oil out, pour in two quarts of sodium silicate solution, and then run the engine for up to seven minutes according to instructions from the National Highway Traffic Safety Administration. Scrap heap, here we come. The government wants to prevent fraud and flipping of old cars. Your clunker has to be running and drivable when you trade it in, and licensed and insured for at least a year. Dealers must gain the vehicle title, and direct a junkyard to crush the car within six months of submission.^{1,6}

250,000 new car sales? That's what the federal government would like the cash-for clunkers program to achieve.⁶ While the program could stimulate sales at U.S. auto dealers, it could seriously hinder the efforts of charities that routinely rely on vehicle donations.

What about leasing? Yes, you can use the credit to offset the lease price of a new car. However, it will have to be a pretty long lease – five years or longer. Americans typically lease cars for about three years.⁷

Deadline: November 1. Actually, you may not have that much time. If you see a parade of \$1,000 cars headed for your local auto center, you might want to hurry. The program will last until November 1 or until the \$1 billion of rebates dries up – so think about junking the clunker now rather than later.⁵

These are the views of Peter Montoya Inc., not the named Representative nor Broker/Dealer, and should not be construed as investment advice. Neither the named Representative nor Broker/Dealer gives tax or legal advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The publisher is not engaged in rendering legal, accounting or other professional services. If other expert assistance is needed, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor for further information.

Citations

¹ google.com/hostednews/ap/article/ALeqM5iltdBAAv4UIPdwp2YwWjh_dIQUAQD99KVML8I [7/24/09]

² media.chrysler.com/newsrelease.do;jsessionid=F3F32E743AE1376AD1409D768AEE34F3?id=88976mid=1 [7/22/09]

³ fueleconomy.gov/feg/carsglossary.htm#CombinedMPG [7/24/09]

⁴ fueleconomy.gov/feg/findacar.htm [7/24/09]

⁵ miamiherald.com/457/story/1155154.html [7/23/09]

⁶ bloomberg.com/apps/news?pid=20601087&sid=atGyvjeWv3wg [7/24/09]

⁷ smartmoney.com/Spending/Autos/Cash-for-Clunkers-What-You-Need-to-Know/ [7/24/09]