Cash for clunkers, part 2: more questions and answers

By Kathleen Pender on June 22, 2009 at 5:11 PM

Judging by my last post, it seems like cash for clunkers is a concept that almost everyone is jazzed about, but few will be able to use.

Just because your car looks, drives or drinks like a clunker doesn’t mean you will benefit from the bill awaiting President Obama’s pen.

“People are very confused about this bill,” says Philip Reed, senior consumer advice editor with Edmunds.com. “There are a lot of contingencies. It’s not going to apply to that many people, but it has people excited to consider the possibilities. They are considering all types of loophole scenarios.”

To recap, Congress just passed a bill that lets people trade in drivable cars, vans or certain trucks that get 18 miles per gallon (city-highway combined) or less and receive a voucher worth $3,500 or $4,500 toward the purchase or lease of a new vehicle that gets slightly better gas mileage.

My Friday post summarized the major points and answered some reader questions. Here are some more:

Q: Does the voucher take the place of the dealer trade-in allowance? How will dealers be able to offer a trade-in value on a vehicle when the voucher guidelines dictate the vehicle is effectively destroyed?

A: The voucher generally takes the place of the trade-in allowance. If your car is worth more than the voucher value, it probably makes more financial sense to
sell it or trade it in the usual way than through the voucher program.

The dealer is required to junk the clunker, although it can salvage parts excluding the engine block and drive train. “There’s a provision that the dealer must tell you the approximate scrap value, suggesting that you, the consumer, would get at least some part of that yourself,” says Therese Langer of the American Council for an Energy-Efficient Economy.

Edmunds.com has a story about the program and a list of potential trade-in vehicles that average 18 mpg or less and have a value of less than $4,500.

Q: Does the new car have to be brand-new or could it be a newer used car?

A: It has to be brand-new, complete with that new-car smell.

Q: Will foreign-built vehicles be eligible as the new vehicle to be purchased?

A. Yes. An earlier version of the bill required the new car to be built in North America, but that was dropped out of fear it could violate trade laws.

Q: Will the voucher be considered income on which the recipient will have to pay taxes?

A: No. It’s tax free.

Q: The legislation limits the price of the new car to $45,000. Is that the base sticker price (before tax and add-ons)? Or is it the amount actually paid for the new vehicle?

A: It is the manufacturer’s suggested retail price.

Q: I read that the definition of a clunker is 18 mpg or less “combined.” Does this mean adding up city and highway and dividing by two?

A: No. It refers to the official combined city-highway mpg as calculated by the U.S. Environmental Protection Agency and posted at www.fueleconomy.gov.
If your car is from 2007 or earlier, this number will not match the number posted on the original window sticker. That’s because the EPA changed the way it calculates mileage starting with model year 2008. (Note: My earlier blog post did not make this distinction.)

If your trade-in is from 2007 or earlier, disregard the window sticker (if you still have it) and use the new EPA mileage estimates.

To find this number, go to www.fueleconomy.gov. Click on Find and Compare Cars and then select your make, model and model year. (Tip: If there is more than one version of the model, keep clicking through until you find your model and the combined mpg posted in red.)

For model years 1984-2007, this number will be labeled Estimated New EPA MGP. For model years 2008 and later, it will be labeled New EPA MPG.

To see if the new car you would like to buy meets the program’s mileage requirements, you can look at the window sticker or the Web site.

Q: I own and drive two 1979 Fords — a customized van and a Lincoln Continental. Both are in good shape and I keep them maintained. However, since the clunker rule only allows vehicles made no earlier than 1984, I am barred from participating. Isn’t this age discrimination?

A: Vehicles more than 25 years old won’t qualify for a voucher. You can thank “the antique car lobby” for this restriction, says Dan Becker, director of the Safe Climate Campaign. “They were out in force saying this (program) would cause the scrappage of vehicles that have parts we need.”

Environmentalists did not object to the restriction. “Those vehicles are rarely driven. It’s not a good deal from taxpayer perspective to be paying thousands of bucks for a car that shows up at a picnic once a year,” Becker says.

Q: If my son owns a clunker that would qualify as a trade in, could I use his voucher to buy a new car and give him my car, which would not qualify as a clunker?
A: To qualify for a voucher, your son's car must have “been continuously insured … and registered to the same owner for a period of not less than 1 year immediately prior to such trade-in,” according to the bill.

Assuming he meets that and other requirements, the bill does not seem to prohibit him from transferring his voucher to you or anyone else. It's not clear whether dealers could or would allow this to happen. The Department of Transportation has 30 days after the bill is signed to write the program rules. Stay tuned.
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