Solution:

Let’s consider the scenario when Jit Eap decides to trade his old car.

Then, Jit Eap needs to pay $20,000 (cash) & sales taxes.

Note that adding the $12,000 car adds to the revenue of the sales since we are trading an asset and this means that the sales taxes incurred on the trade will be $32,000 x 0.07 = $2,240.

Thus, Jit Eap needs to pay $20,000 + $2,240 = $22,240 if he trades his old car.

Let’s now consider the scenario when he decides to not trade his old car.

Then, Jit Eap needs to pay $32,000 x 0.85 = $27,200 for the purchase. Moreover, taxes are levied on this discounted rate, meaning that sales taxes incurred will be $27,200 x 0.07 = $1,904.

Thus, Jit Eap needs to pay $27,200 + $1,904 = $29,104 if he does not trade his old car.

- ⇨ Legally, the $12,000 is not exactly a cash price reduction, but rather a trade for an asset. According to accounting standards, this is NOT a discount.
- ⇨ Discount on trade-in will be $4,800. This is the discount offered by the dealer.
- ⇨ Thus, if Mr. Eap wants to pay as little taxes as possible, then he should not trade his old car.