



Regulation of Motor Vehicle Sales

By Katie Ruedebusch

In the United States, one of the largest purchases a person makes besides a home is a motor vehicle. To protect consumers and promote trust in the motor vehicle industry, states and the federal government regulate the manufacturing, safety, and sale of motor vehicles. This *issue brief* discusses federal consumer protection laws, motor vehicle dealer regulations in Colorado, and Colorado franchise, Sunday closing, and so-called “lemon laws.”

Federal Consumer Protection Laws

The federal government regulates the manufacturing and safety of motor vehicles, while the states regulate the titling and registration of vehicles. As a result, the states regulate the operation of car dealerships, while the federal government enforces safety regulations and general protections for consumers.

Lemons laws. Consumers who purchase defective motor vehicles are generally entitled to repair, refund, or replacement through warranty laws, commonly referred to as lemon laws. Although many states have specific laws dealing with defective motor vehicles, including Colorado, the Uniform Commercial Code and the federal Magnuson-Moss Warranty Act¹ protect most motor vehicle buyers through express and implied warranty provisions.

Consumer protection laws. The Federal Trade Commission’s Used Car Rule,² or Used Motor Vehicle Trade Regulation Rule, requires motor vehicle dealers to display a sticker on a used

vehicle’s window that discusses any warranties offered by the dealer, the terms and conditions of any warranties, and if the vehicle is for sale “as is.”

Colorado Motor Vehicle Dealer Regulations

Colorado first began regulating motor vehicle dealers in 1945.³ Colorado primarily regulates the sale of motor vehicles, motorcycles, watercraft, all-terrain vehicles, and snowmobiles. The Auto Industry Division (AID) in the Colorado Department of Revenue provides regulatory oversight and enforcement. In addition to regulating the sale of vehicles and powersports, the AID employs criminal investigators to review and evaluate consumer complaints against licensees. In 2018, the AID investigated over 1,000 consumer complaints, conducted over 900 investigations, and issued 12 criminal summons.

Motor Vehicle Dealer Board. [The Motor Vehicle Dealer Board](#) (board) licenses, regulates, and enforces Colorado’s motor vehicle industry. The board, appointed by the Governor, consists of:

- three members representing motor vehicle dealers;
- three members representing used motor vehicle dealers; and
- three members representing the public.

The board can promulgate rules, review complaints, discipline licensees, conduct hearings,

¹15 U.S.C. § 2301 *et seq.*

²16 CFR § 455.

³Section 44-20-101, *et seq.*, C.R.S.

and set license fees. The board also has the authority to implement fines for violations of state law related to motor vehicle sales.

Licenses. AID issues licenses to the following:

- salespersons;
- dealers (new and used);
- wholesalers;
- wholesaler auction dealers;
- manufacturers/distributors;
- manufacturer representatives;
- buyer agents; and
- business disposal.

In order to receive a salesperson license, applicants must be employed at a new or used motor vehicle dealer, secure a \$15,000 bond, and pass a mastery examination administered by dealerships or third-party administrators. New and used motor vehicle dealers license applicants must secure a \$50,000 bond, pass the mastery examination, and complete a pre-licensing program. The managing officer of the dealership or every partner in partnership must pass the mastery examination.

Powersports. The powersports industry is regulated in a fashion similar to the motor vehicle industry. Powersport vehicles include mostly vehicles that are not considered motor vehicles, such as all-terrain vehicles, snowmobiles, and boats. Similar to motor vehicles, the board licenses and regulates the industry.

Franchise Laws

All 50 states, including Colorado, have motor vehicle franchise laws, which govern the relationships among motor vehicle manufacturers, distributors, and dealers. Colorado law prohibits manufacturers and distributors from engaging in business with a dealer to reduce or eliminate competition or to create a monopoly for the licensee.⁴ The law further prohibits threats made to licensees by manufacturer/distributors that they will discontinue or cease to sell, refuse to enter into

a contract to sell, or terminate a contract unless the licensee finances the purchases of motor vehicles only through a designated person. Colorado's franchise laws also govern cancellation of a motor vehicle dealer franchise; the requirements that manufacturers can impose on motor vehicle dealers; anti-coercion policies; conditions in franchise agreements; notification requirements; and other contractual provisions.

Direct sales. Under current law, motor vehicle manufacturers may not own, operate, or control a motor vehicle dealer or used motor vehicle dealer. However, one motor vehicle manufacturer (Tesla) is allowed to operate one motor vehicle dealer location in Colorado to sell directly to customers.

Sunday Closing Laws

The majority of the states allow motor vehicle dealers to sell vehicles on Sunday; but 13 states, including Colorado, prohibit the sale of motor vehicles on Sunday. Under current law, Colorado prohibits the sale of motor vehicles on the first day of the week (Sunday).⁵ However, boats and snowmobiles are exempt and can be sold on Sundays. In addition, auto repair, tire, and auto accessory stores can operate on Sundays. Violators of the Sunday closing law are subject to a misdemeanor and can be punished by a fine ranging from \$75 to \$1,000, six months in jail, or suspension or revocation of their motor vehicle dealer license.

Colorado Lemon Law

In addition to federal consumer protection laws, Colorado's motor vehicle lemon law covers new motor vehicles and does not apply to used vehicles, motorcycles, and motor homes. Within the terms of a warranty or within one year of the purchase of a motor vehicle, manufacturers or authorized dealers have four repair attempts to fix the vehicle. After four attempts to repair the vehicle, the owner may return the vehicle and receive a refund of the full purchase price.

⁴Section 44-20-201, *et seq.*, C.R.S.

⁵Section 44-20-302, C.R.S.