



# Your New Ride: Legal Considerations for Owning Your First Car

## ***Texas Transportation Code:***

In the State of Texas, the “Rules of the Road” are codified (laws) in the Texas Transportation Code. The rules set forth in the Texas Transportation Code govern how Texans are required to drive. You can also find rules in the Transportation Code concerning insurance requirements, specific vehicle requirements, rules for professional drivers such as 18-wheeler drivers, and other traffic laws such as speeding citations.

## ***Driver’s License:***

Before you can drive, Texas law requires you to secure a driver’s license. According to Sec. 521.021 of the Texas Transportation Code, “A person, other than a person expressly exempted under this chapter, may not operate a motor vehicle on a highway in this state unless the person holds a driver's license issued under this chapter.” There can be significant consequences if you do not have a driver’s license. If you do not have a driver’s license and do not have car insurance, you may face up to 180 days in jail and a \$2,000 criminal penalty, not to mention civil fines that may add up.

## ***Title:***

Ownership of a vehicle is shown in the state of Texas by having a “title.” A title is simply a certificate that states who legally owns the vehicle. Your local county tax office issues titles to motor vehicles. Titles can be transferred between people, and you can designate a beneficiary to the ownership of the vehicle if you were to pass away.

## ***How to Purchase Your New Ride – Leasing vs. Buying:***

There are many ways to purchase a vehicle. The simplest but usually most difficult option is to pay cash for a vehicle. This process eliminates the need for a bank loan, and you purchase the vehicle outright. Because most people cannot purchase a vehicle outright, people have what is commonly referred to as a “car note.” A “car note” is a loan secured from a bank or credit union that allows a purchaser to buy a vehicle and pay the financial institution back for the loan over an extended period of time, with interest. When you secure a loan to buy a vehicle, you still purchase the vehicle outright, but the bank or credit union will be co-listed on the title of the vehicle until you pay off the loan. Once you pay off the loan, the financial institution that secured your loan will send you an updated copy of the title.

Leasing a vehicle is a separate process entirely. When you lease a vehicle, you agree to pay the dealership for the ability to use the vehicle for a pre-determined amount of time. If you choose to lease a vehicle, you must agree to drive the vehicle you’re leasing a limited number of miles per year, which will be specified in your lease

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agreement. There are often serious fees associated with exceeding the mileage you pay for when leasing a vehicle.

Also, keep in mind that when you purchase a vehicle, there are various taxes associated with that transaction. In Texas, sales tax at 6.25% is applied to the purchase of any vehicle that weighs less than 11,000 pounds. See <https://comptroller.texas.gov/taxes/publications/96-254/mv-sales.php>.

## **Registration and Inspections:**

Once you buy or lease a vehicle, you have to properly maintain it and keep it safe for use on the roadways. However, on June 13, 2023, Gov. Greg Abbott signed into law House Bill 3297, which eliminated state inspections. That law will go into effect in 2025. Starting in 2025, Texas drivers will be required to pay an annual fee of \$7.50 for the privilege of driving and using Texas roadways. Nevertheless, it's important to check with your local authorities to ensure there aren't separate requirements for residents of specific counties.

## **Insurance for Your New Ride:**

Before you head out on the road, **Section 601.082** of the Texas Transportation Code requires that you purchase insurance. There are three main categories of insurance you need to purchase to legally and safely drive on Texas roadways:

- The first type of insurance you need is liability insurance. Liability insurance covers you if you accidentally injure someone while driving. Texas law requires all drivers to carry a minimum of \$30,000 in liability insurance.
- The second type of insurance you need is called Underinsured / Uninsured Motorist Protection. This type of insurance is generally abbreviated as "UM/UIM." This type of insurance is generally sold collectively with your liability coverage. UM/UIM insurance protects you if you are injured by someone who either does not have any insurance or does not have enough insurance to adequately compensate you for the damages you might have suffered.
- The third type of insurance you need is collision coverage. You need to carry enough collision coverage insurance to fully cover your vehicle if you are in a crash.

Many people also choose to purchase Personal Injury Protection coverage, called "PIP." PIP coverage generally comes in \$2,500, \$5,000, or \$10,000 amounts and is paid directly to the policyholder to assist with medical bills and other expenses that come up when someone is involved in a crash. For more information on the minimum coverage amount necessary for a motor vehicle in Texas, please see **Section 601.072** of the Texas Transportation Code.

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## ***Selling Your “Old” Ride:***

When it is finally time sell your vehicle, it is important to secure a contract with the appropriate terms for the sale. Upon receiving payment, you should provide the buyer with the following:

- A properly signed title, including the date of sale and odometer reading.
- Signed Application for Texas Title and/or Registration with the sales price clearly shown.

You should keep detailed written records of the sale transaction, including contact information for the buyer, the date of sale and information on the vehicle, including the Vehicle Identification Number (VIN).

Vehicles are required to be titled in the buyer’s name within 30 days from the date of sale. Failing to properly transfer a vehicle into the buyer’s name could result in you being held responsible for tickets, toll violations, or even crimes committed with the vehicle. To ensure this doesn’t happen to you, accompany the buyer to your county tax office to ensure a vehicle title application is filed. To further protect yourself, file a Vehicle Transfer Notification within 30 days from the date of sale. The Texas Department of Motor Vehicles updates its records to show the vehicle as sold, and you will not be held responsible for parking tickets and toll violations.

## ***Gifting Your Ride:***

You can also give your vehicle as a gift to a relative or qualifying nonprofit organization. The signed title and completed Application for Texas Title and/or Registration, must be provided to the county tax office to title the vehicle. The title application must be accompanied by Affidavit of Motor Vehicle Gift Transfer (Texas Comptroller of Public Accounts Form 14-317).

The donor and recipient must both sign the affidavit and title application. Either the donor or recipient must submit all forms and documents in person to the county tax office. A \$10 gift tax applies to a person who receives the vehicle from a: spouse, parent or stepparent, grandparent or grandchild, child or stepchild, sibling, guardian, decedent’s estate, or a non-profit 501(c)(3).

For more information or to obtain copies of the proper forms referenced in this guide, please visit <https://www.txdmv.gov/motorists/>.

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