Wisconsin Department of Revenue

TAX BULLETIN

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If you would like to receive notification when a new *Wisconsin Tax Bulletin* is available, subscribe to the sales and use tax or tax professional electronic mailing list.

In This Issue

Voluntary Disclosure Pays

If an individual or business hasn't filed Wisconsin tax returns for prior years, or realizes that taxes were underpaid on previously filed Wisconsin returns, what should they do? As a contact by the Department of Revenue (DOR) could result in costly penalties, a better alternative is to take advantage of DOR's Voluntary Disclosure Program. Various penalties are waived and other benefits are obtained by voluntary disclosure. See the complete policies relating to additional taxes or excessive credits and unfiled returns for details.

2012 Tax Form Highlights

Although most Wisconsin tax forms and schedules did not significantly change for 2012, there is a notable exception for corporate combined reporting. Form 4M, *Wisconsin Combined Group Member-Level Data*, has been revised to reflect that for taxable years beginning after December 31, 2011, the sharing of pre-2009 loss carryforwards is permitted. More information concerning this subject is available as common questions. Also of note:

- Schedules BC, EM, and VE are new for 2012. They will be used to claim the biodiesel fuel production, electronic medical records, and veteran employment credits.

- Schedules CR and JT have been revised to reflect the jobs tax credit is refundable for taxable years beginning in 2012 and thereafter.

- Schedule IE has been discontinued, as the Internet equipment credit is not available for taxable years beginning after December 31, 2011. Any credit carryforward may be claimed directly on Schedule CR.

Employers Encouraged to Go Electronic

Filing Forms W-2

Although employers filing less than 50 Forms W-2 with the Department of Revenue (DOR) are not required to do so electronically, they are encouraged to. DOR will be sending a letter to employers currently filing paper Forms W-2, asking them to electronically file using one of the following methods:

- In a Portable Document Format (PDF) file through DOR's website. **Note:** DOR can only accept PDF files created on the Social Security Administration's website.

- At the same time as the Annual Reconciliation (Form WT-7) through *My Tax Account*. A different method will need to be used to meet federal W-2 reporting requirements.

- In an EFW2 text file through DOR's website. Specifications for submission in this manner are outlined in Wisconsin Publication CO-001.

Submission through DOR's website is easy and free. No PIN or password is required to transfer PDF or EFW2 text files.

Managing DOR Wage Attachments

Employers are also encouraged to use *My Tax Account* to make the required payments or respond to DOR wage attachment letters:

- Go to tap.revenue.wi.gov

- Log in to *My Tax Account*

- Select your Wage Attachment account

If you will start withholding wages from your employee, you do not need to respond to the letter. Simply start withholding the required wages and send payments to us using *My Tax Account*.

If the employee no longer works for you or has been laid off and you cannot use *My Tax Account* to respond, complete and send back the department's letter (do not use your own letter). We can scan and capture data from our letter, so back-end processes are automated.

Publication Update

Sales and Use Taxes

206 Sales Tax Exemptions for Nonprofit Organizations (Revised 10/12)

211 Cemetery Monument Dealers – How do Wisconsin Sales and Use taxes Affect You? (Revised 10/12)

216 Filing Claims for Refund of Sales or Use Tax (Revised 10/12)

228 Temporary Events (Revised 10/12)

All publications of the Income, Sales, and Excise Tax (IS&E) Division of the Department of Revenue may be downloaded or ordered online. There are over 70 publications available, covering a wide range of topics.

Wage Attachment and Levy Notice Redesign

The Department of Revenue (DOR) has redesigned the Notice of Employee Wage Attachment, which is sent to an employer to require withholding from the wages of an employee with a delinquency. In November, DOR will also be rolling out a redesigned Notice of Levy, which is sent to a financial institution to require attachment to all money in any accounts of a person with a delinquency. The new notices use plain language and a simpler layout to make them easier for customers to understand and more efficient for DOR to process with a response.

Employers can respond to a wage attachment notice using *My Tax Account.* See related article on page 2.

Financial institutions should note where responses to the new levy notice are to be sent:

Levy response with a payment
Wisconsin Department of Revenue
PO Box 93351
Milwaukee, WI 53293-0351

Levy response without a payment
Wisconsin Department of Revenue
PO Box 8901
Madison, WI 53708-8901

Using two centralized addresses instead of the many addresses currently used will simplify the processing of levy payments.

Field Audit Results Can Be "Projected" Forward

The Department of Revenue will project field audit results forward to subsequent years under certain conditions. This program began in 2003 as a result of requests from taxpayers who wanted to be compliant for periods after the field audit. The department and taxpayers both benefit from projecting audit results forward. Taxpayer benefits include time saved by not going through another audit or the preparation of amended returns for those years and less interest since tax due is paid sooner.

The majority of projection forward cases to date have involved sales and use tax audits, but may apply to income or franchise tax audits. Field audits that result in either an assessment or refund will be considered. The taxpayer and department must agree to the projection forward computations.

A determination whether the taxpayer qualifies for a projection forward of audit results is made on a case-by-case basis. Factors that do not automatically preclude a projection, but may indicate the taxpayer is not a good prospect for this treatment, include the following:

- Changes in the taxpayer's business operations.
- Changes in the method of reporting taxes, or in personnel responsible for the reporting.
- Tax law changes that affect the taxpayer.
- Unagreed issues in the period audited.

If you have any questions about the projection forward process, please discuss with the auditor that is handling your audit.

Reminder: Tax Booklet Mailings to Individuals Discontinued

Prompted by the continued growth of electronic filing, the availability of free filing options, and the need to reduce costs, last year the Department of Revenue (DOR) discontinued its annual mailing of Form 1, 1A and WI-Z, 1NPR, and, with limited exceptions, Schedule H and H-EZ booklets for individual income tax. This practice will continue with booklets for 2012.

Individual income tax forms and instructions for 2012 will be available from DOR's website, participating libraries, and, upon request, by mail. However, individuals are encouraged to file electronically, whether through Wisconsin *e*-file or other means.

Tips for Filing Schedule CC

As part of its commitment to efficiency through technology, the Department of Revenue (DOR) has automated its process of reviewing closing certificate requests for fiduciaries. Following are some guidelines for completing and filing Schedule CC, *Request for a Closing Certificate for Fiduciaries*.

1. The decedent's name should be entered as requested (last name, first name, middle initial). For example, do not enter "Estate of John Doe" or "John Doe Estate."
2. The certificate will be mailed using the name and address exactly as entered at the top of Schedule CC. Make sure this information is correct, current, and consistent. For example, do not enter the attorney's name and personal representative's address.
3. Enter the name of the county of jurisdiction, not a numerical code.
4. For an estate, always enter the decedent's social security number and date of death and the county of jurisdiction.
5. Include copies of the probate inventory and will, if there is one. If sending them as PDF files, please make sure your software supports this.
6. Be sure to use the correct mailing address (PO Box 8918).
7. Do not send Schedule CC with Form W-RA. Only use Form W-RA to paper file required attachments when Schedule CC is filed electronically.
8. Unless requested by DOR, do **not** include a cover letter.

Following these guidelines should result in closing certificates that are timely and accurate. If you receive a closing certificate with an error, contact the fiduciary unit at (608) 266-3680 or estate@revenue.wi.gov for a corrected certificate. In your email, include the tax account number from the certificate.

Don't Get Stuck With "Successor Liability"

A purchaser of a business should be aware of "successor liability," under which they become responsible for any unpaid sales and use tax of the seller. To avoid successor liability, the purchaser may hold a sufficient amount of the purchase price in escrow until the Department of Revenue issues a "clearance certificate." A clearance certificate ensures the seller has filed all sales and use tax returns and paid all sales and use taxes due.

DOR's website has a list of common questions and answers concerning successor liability and clearance certificates. Additional information is also available at (608) 266-2604.

Question and Answer

***Caution:** The answers in this article reflect the position of the Wisconsin Department of Revenue of laws enacted by the Wisconsin Legislature as of the date of this Bulletin. They may be subject to change based on laws enacted after that date, new administrative rules, and court decisions.*

(Withholding Tax)

Q When two companies merge mid-year, what are their Wisconsin withholding reporting requirements?

A Each company has a Wisconsin withholding reporting requirement as long as each withholding account is active. Each company must submit its own Form WT-7 annual reconciliation and wage statements. The department will not accept a combined Form WT-7 or combined Forms W-2, from companies that merged mid-year.

Example: Company A merges with Company B effective July 31. Company A inactivates its tax accounts as of July 31 and Company B is the remaining entity.

Company A's WT-7 and wage statements for the period January 1 through July 31 are due August 31 (30 days after the inactivation date).

Company B's WT-7 and wage statements are due January 31 following the close of the calendar year. Company B's WT-7 and wage statements will not reflect Company A's wages and withholding from January 1 through July 31, the period prior to the merger. Company A must report these amounts.

For more information on withholding, see Publication W-166, *Wisconsin Withholding Tax Guide.*

(Sales and Use Tax)

Q If a contractor is constructing a manure pit for a farmer, is the contractor required to pay sales tax on the purchase of the materials used?

A Animal waste containers and materials used to construct an animal waste container for a farmer are exempt from sales and use tax. Therefore, a contractor or farmer may purchase materials (for example, concrete) that are to be used in constructing a manure pit exempt from Wisconsin sales tax.

To claim the exemption, a fully completed Form S-211, *Wisconsin Sales and Use Tax Exemption Certificate,* should be presented to the seller at the time of purchase. There is a specific checkbox in the Farming section of Form S-211. The seller should keep the fully completed exemption certificate in its records.

For more information, see page 14 of Publication 221, *Farm Suppliers and Farmers*.

Sales and Use Tax Report Available

The latest issue of the *Sales and Use Tax Report* became available on the Department of Revenue's website in September. The *Sales and Use Tax Report* provides information concerning recent sales and use tax law changes and other pertinent sales and use tax information. Listed below are the articles in the September 2012 *Sales and Use Tax Report* (Issue 3-12). Links provided are to articles in News for Tax Professionals concerning the same subject matter.

- 50 Years of Sales and Use Tax in Wisconsin
- Frac Sand Mining and Processing in Wisconsin
- Motor Vehicle Dealers' Measure of Use Tax Increased to $146
- New Tax Releases
  - Movable Storage Containers
  - Discounted Certificates and Product Vouchers
- Campgrounds' Charges for Campsites and Electricity
- Wisconsin/Minnesota Sales Tax Seminars
- Question and Answer (returned check (NSF) charges)

Report on Litigation

Summarized below are recent significant Wisconsin Tax Appeals Commission (WTAC) and Wisconsin Court decisions. The last paragraph of each decision indicates whether the case has been appealed to a higher Court.

The following decisions are included:

SALES AND USE TAX

Estoppel. *King's Enterprises of Wausau, Inc. vs. Wisconsin Department of Revenue* (Wisconsin Tax Appeals Commission, May 11, 2012).

At issue in this case is whether the department should be estopped from collecting $132,000 in unpaid sales tax from 2004 to 2007.

For many years the taxpayer, a Wisconsin retailer, failed to collect sales tax on its sales of nonmotorized vehicles purchased by nonresidents who took delivery of the vehicles in Wisconsin.

Wisconsin sales of nonmotorized vehicles (for example, towable travel trailers and fifth wheels) are taxable to Wisconsin residents and nonresidents alike. No credit for tax paid to other states was allowed because these were Wisconsin sales first.

The taxpayer argued that the doctrine of equitable estoppel prevents the department from assessing sales tax, interest, and penalties on the nonresident sales because department employees erroneously advised the taxpayer to report the sales as tax exempt.

According to the Commission, the key issue was whether or not the alleged advice was ever given. The taxpayer provided no written proof or documentation and testimony conflicted as to who advised the taxpayer not to collect tax.

The Commission concluded the taxpayer had not shown by clear, satisfactory, and convincing evidence the department should be estopped from collecting the sales taxes the taxpayer failed to pay from 2004 to 2007.

The taxpayer has not appealed this decision.

Construction contractors – exempt entity construction. *Sullivan Brothers, Inc. vs. Wisconsin Department of Revenue* (Wisconsin Tax Appeals Commission, August 14, 2012).

The issue in this case is whether a Wisconsin contractor and installer is subject to Wisconsin use tax on materials (for example, ceiling tiles) sold by the contractor's wholly owned subsidiary to the contractor's tax-exempt customers.

Ceiling tiles and related construction materials were purchased by the contractor and then transferred to its wholly owned subsidiary. In turn the wholly owned subsidiary sold the materials to the contractor's tax-exempt customers. Each tax-exempt entity furnished the subsidiary a Wisconsin sales and use tax exemption certificate referencing the tax-exempt entity's department-issued certificate of exempt status (CES) number. The contractor installed the materials. Neither the contractor nor the subsidiary paid tax on the materials.

Wisconsin law provides that contractors and subcontractors are the consumers of the materials used by them in real property construction activities. In addition, a contractor engaged primarily in real property construction may use resale certificates to purchase materials which the contractor has sound reason to believe the contractor will sell to customers for whom the contractor will not perform real property construction activities involving the use of such materials [sec. 77.52 (2), Wis. Stats. (2009-10)].

The Commission found the subsidiary was not the contractor's customer. The contractor's willful imposition of a wholly owned intermediary to create a "customer" is not, in the Commission's view, "sound reason." Books and records did not support claims that the contractor and supplier were dealing at arm's length and were separate and distinct.

In addition the Commission looked at the "substance and realities" of the transactions, which focuses on economic substance, business purpose, and a showing that the transaction was not shaped solely by tax-avoidance features.

The Commission found little or no independent substance to the subsidiary; transactions between the companies were at cost indicating a pass-through relationship; journal entries were made at the end of each year, not when the alleged transactions occurred between the two companies; amended returns were filed after the audit began, arguably to support the contractor's view of these transactions; and the transactions could be described as indirect.

The Commission concluded these transactions failed the "substance and realities" test. Prior case law supported the Commission's decision to rule in favor of the department.

The taxpayer has appealed this decision to the Circuit Court.

Tax Releases

"Tax Releases" are designed to provide answers to the specific tax questions covered, based on the facts indicated. In situations where the facts vary from those in a tax release, the answers may not apply. Unless otherwise indicated, tax releases apply for all periods open to adjustment, and all references to section numbers are to the Wisconsin Statutes. (Caution: Tax releases reflect the position of the Wisconsin Department of Revenue, of laws enacted by the Wisconsin Legislature as of the date published in this Bulletin. Laws enacted after that date, new administrative rules, and court decisions may change the answers in a tax release.)

The following tax release is included:

Sales and Use Tax

SALES AND USE TAX

1 Motor Vehicle Lease Dealers – "Trade-Ins" and "Turn-Ins"

NOTE: This Tax Release was revised on November 16, 2012 to correct a minor error in *Example 20*.

Statutes: Sections 77.51(12m)(b)5. and (15b)(b)5. and 77.54(8), Wis. Stats. (2009-10)

Wis. Adm. Code: Section Tax 11.83(2)(a), Wis. Adm. Code (November 2010 Register)

Background: It is common for a person who is purchasing or leasing a new motor vehicle to trade in his or her old vehicle to a motor vehicle dealer. This tax release explains the sales and use tax treatment of trading in one vehicle for another. Examples include transactions where vehicles are leased.

Wisconsin law allows a deduction from the sales price of the sale of a motor vehicle for the amount of the trade-in allowed for another motor vehicle in the same transaction. Section 77.51(12m)(b)5. and (15b)(b)5., Wis. Stats. (2009-10), provide that "purchase price" and "sales price," respectively, do not include the following:

> "In all transactions in which an article of tangible personal property … is traded toward the purchase of … property… the amount of the purchase [sales] price that represents the amount allowed for the … property… traded…."

Section 77.54(8), Wis. Stats. (2009-10), provides an exemption from Wisconsin sales and use taxes for "[c]harges for insurance … where such charges are separately set forth upon the invoice given by the seller to the purchaser." Therefore, when a lease agreement includes a separate charge for insurance, the insurance charge is not taxable. GAP insurance and GAP waiver charges are not taxable.

Trade-Ins

If a motor vehicle is traded in for a motor vehicle of greater value, the amount subject to tax is the difference between the full purchase price and the amount allowed for the motor vehicle traded in. If the motor vehicle is traded in for a motor vehicle of lesser value, and there is no other consideration given, the amount subject to tax is zero.

In order to reduce the sales price for a trade-in amount, the trade-in must occur in the same transaction as the purchase (i.e., the vehicle must be traded-in to the same party that sells the new vehicle).

Lease "Trade-In"

A lessee of a motor vehicle may replace his or her motor vehicle by purchasing or leasing another motor vehicle and "trading in" his or her leased vehicle. If the new dealer/lessor chooses to purchase that motor vehicle, the new dealer/lessor may purchase the motor vehicle that its customer "trades in" from the lessor of the "traded in" vehicle using its customer's option to purchase.

When a lessee "trades-in" a leased motor vehicle on the purchase or lease of another motor vehicle, there are two transactions that occur. One is the sale of the leased motor vehicle (with permission of the lessee if the lessee has the option to purchase or at the discretion of the lessor if the lessee does not have the option to purchase) from the lessor to the dealer at the purchase option amount price (or the subsequently negotiated price). The other is the sale or lease of the replacement vehicle to the dealer's customer. Because there are two transactions, the seller or lessor of the replacement vehicle **may not** reduce its taxable sales price by the amount allowed for a "trade-in."

Note: Examples 9 and 19 illustrate how the sales price may be reduced by the amount of positive equity allowed as a discount.

Lease "Turn-In"

A lease "turn-in" occurs when the seller or lessor of the replacement vehicle receives the previously leased vehicle and facilitates the return of the vehicle to the original leasing company by doing the following:

- Remitting the payoff amount and related tax to the original leasing company on behalf of the customer.
- Collecting the payoff amount and related tax from the customer on behalf of the original leasing company.

In a lease "turn-in," the seller or lessor is not accepting a trade-in towards the purchase of the replacement vehicle. Rather, the seller or lessor is merely facilitating the return of the leased vehicle to the original lessor. The seller or lessor of the replacement vehicle **may not** reduce its taxable sales price for a "turn-in."

Positive Equity

When total payments made by a lessee or other party throughout the course of the lease are more than the agreed upon amount, it is considered "positive equity." A lease agreement can result in positive equity if:

- Insurance settlement is greater than the amount owed by the lessee.
- Additional payments or pre-payments are made by the lessee.

Negative Equity

When a lessee owes an additional amount to a leasing company at the termination of a lease, it is considered negative equity. A lease agreement can result in negative equity if:

- Lease is terminated prior to the end of the lease agreement (e.g., lessee owes a lease termination fee to lessor).
- Excess mileage.

Examples of Trade-Ins and "Turn-Ins" With Respect to Motor Vehicle Leases

Type of Transaction	No Trade-In	Owned Trade-In, No Lien	Owned Trade-In, Lien < Trade-In Value	Owned Trade-In, Lien > Trade-In Value	Lease "Turn-In"			Leased "Trade-In"		
					No Lease Equity	Positive Lease Equity	Negative Lease Equity	No Lease Equity	Positive Lease Equity	Negative Lease Equity
Sale of Replacement Vehicle	Example 1	Example 2	Example 3	Example 4	Example 5	Example 6	Example 7	Example 8	Example 9	Example 10
Lease of Replacement Vehicle	Example 11	Example 12	Example 13	Example 14	Example 15	Example 16	Example 17	Example 18	Example 19	Example 20

NOTE 1 – Lease "Turn-In": If Customer A "turns in" a leased vehicle (Examples 5-7 and 15-17), the examples assume that Dealer B (or Leasing Company Y) handles the administration of the turn-in with Leasing Company C. If Customer A pays a "payoff amount" to Leasing Company C, the payoff is subject to tax as a lease payment (i.e., amount paid to fulfill the lease contract).

NOTE 2 – Lease "Trade-In": If Customer A "trades in" a leased vehicle (Examples 8-10 and 18-20), the examples assume that Leasing Company C sells the automobile to Dealer B (or Leasing Company Y), rather than to Customer A. Dealer B (or Leasing Company Y) should provide Leasing Company C with an exemption certificate claiming resale if Dealer B (or Leasing Company Y) will sell or lease the automobile in its regular course of business. If Customer A pays a "payoff amount" to Leasing Company C, the payoff is subject to tax as a lease payment (i.e., amount paid to fulfill the lease contract).

Example 1 – Sale of automobile with no trade-in

- Dealer B sells Customer A an automobile for $20,000.
- Customer A does not trade in another vehicle when purchasing the automobile.
- **Dealer B's taxable receipts are $20,000.**

Calculation of Amount Paid to Dealer B		
Sales Price of Replacement Vehicle		$20,000
Additions:		0
Subtractions:		0
Amount Paid to Dealer B		***$20,000***

Calculation of Taxable Sales Price		
Sales Price of Replacement Vehicle		$20,000
Additions:		0
Subtractions:		0
Taxable Sales Price		***$20,000***

Example 2 – Sale of automobile with owned trade-in; no lien on trade-in

- Dealer B sells Customer A an automobile for $20,000.
- Customer A trades in his old automobile and receives a trade-in allowance of $8,000.
- Customer A owns his old automobile and has no lien on the automobile.
- Customer A pays $12,000 to Dealer B.
- **Dealer B's taxable receipts are $12,000.**

Calculation of Amount Paid to Dealer B		
Sales Price of Replacement Vehicle		$20,000
Additions:		0
Subtractions:	Trade-in	($8,000)
Amount Paid to Dealer B		***$12,000***

Calculation of Taxable Sales Price		
Sales Price of Replacement Vehicle		$20,000
Additions:		0
Subtractions:	Trade-in	($8,000)
Taxable Sales Price		***$12,000***

Example 3 – Sale of automobile with owned trade-in; lien less than trade-in amount

- Dealer B sells Customer A an automobile for $20,000.
- Customer A trades in his old automobile and receives a trade-in allowance of $8,000.
- Customer A has a lien on his old automobile for $6,000.
- Customer A pays $18,000 to Dealer B.
- **Dealer B's taxable receipts are $12,000.**

Calculation of Amount Paid to Dealer B		
Sales Price of Replacement Vehicle		$20,000
Additions:	Lien on trade-in	$6,000
Subtractions:	Trade-in	($8,000)
Amount Paid to Dealer B		***$18,000***

Calculation of Taxable Sales Price		
Sales Price of Replacement Vehicle		$20,000
Additions:		0
Subtractions:	Trade-in	($8,000)
Taxable Sales Price		***$12,000***

Example 4 – Sale of automobile with owned trade-in; lien greater than trade-in amount

- Dealer B sells Customer A an automobile for $20,000.
- Customer A trades in his old automobile and receives a trade-in allowance of $8,000.
- Customer A has a lien on his old automobile for $10,000.
- Customer A pays $22,000 to Dealer B.
- **Dealer B's taxable receipts are $12,000.**

Calculation of Amount Paid to Dealer B		
Sales Price of Replacement Vehicle		$20,000
Additions:	Lien on trade-in	$10,000
Subtractions:	Trade-in	($8,000)
Amount Paid to Dealer B		***$22,000***

Calculation of Taxable Sales Price		
Sales Price of Replacement Vehicle		$20,000
Additions:		0
Subtractions:	Trade-in	($8,000)
Taxable Sales Price		***$12,000***

Example 5 – Sale of automobile with lease "turn-in"; no lease equity

- Customer A leases an automobile from Leasing Company C, with an option to return the automobile at the end of the lease period (i.e., no additional amount is owed by Customer A to Leasing Company C).
- Dealer B sells Customer A an automobile for $20,000.
- Customer A "turns-in" his old leased automobile to Dealer B, who facilitates the return of the automobile to Leasing Company C.
- Customer A pays $20,000 to Dealer B.
- **Dealer B's taxable receipts are $20,000.**

Calculation of Amount Paid to Dealer B	
Sales Price of Replacement Vehicle	$20,000
Additions:	0
Subtractions:	0
Amount Paid to Dealer B	***$20,000***

Calculation of Taxable Sales Price	
Sales Price of Replacement Vehicle	$20,000
Additions:	0
Subtractions:	0
Taxable Sales Price	***$20,000***

Example 6 – Sale of automobile with lease "turn-in"; positive lease equity

- Customer A leases an automobile from Leasing Company C, with an option to return the automobile at the end of the lease period.
- Customer A has $2,000 positive lease equity at the end of the lease.
- Dealer B sells Customer A an automobile for $20,000.
- Customer A "turns-in" his old leased automobile to Dealer B, who facilitates the return of the automobile to Leasing Company C.
- Leasing Company C pays $2,000 positive equity to Dealer B on behalf of Customer A. At the option of Customer A, Dealer B applies the $2,000 to Customer A's purchase of the new automobile.
- Dealer B reduces the selling price of the new automobile by $2,000 for the positive equity received.
- Customer A pays $18,000 to Dealer B.
- **Dealer B's taxable receipts are $20,000.**

Calculation of Amount Paid to Dealer B		
Sales Price of Replacement Vehicle		$20,000
Additions:		0
Subtractions:		0
Amount Paid to Dealer B:		
From Customer A	***$18,000***	
From Leasing Company C	***$2,000***	
Total Amount Paid to Dealer B		***$20,000***

Calculation of Taxable Sales Price	
Sales Price of Replacement Vehicle	$20,000
Additions:	0
Subtractions:	0
Taxable Sales Price	***$20,000***

Example 7 – Sale of automobile with lease "turn-in"; negative lease equity

- Customer A leases an automobile from Leasing Company C, with an option to return the automobile at the end of the lease period.
- Customer A has $2,000 negative lease equity at the end of the lease.
- Dealer B sells Customer A an automobile for $20,000.
- Customer A "turns-in" his old leased automobile to Dealer B, who facilitates the return of the automobile to Leasing Company C.
- On behalf of Customer A, Dealer B pays Leasing Company C $2,000 in settlement of the lease, plus sales tax on the $2,000. There is no exemption for Leasing Company C's receipts in settlement of the lease.
- Dealer B increases the amount collected from Customer A by $2,000, plus tax, to reimburse itself for the negative equity payment to Leasing Company C.
- Customer A pays $22,000 (plus tax) to Dealer B.
- **Dealer B's taxable receipts from the sale of the automobile are $20,000. Leasing Company C's taxable receipts are $2,000 from the lease settlement. Dealer B should turn over the sales tax collected from Customer A on the $2,000 lease settlement to Leasing Company C.**

Calculation of Amount Paid to Dealer B		
Sales Price of Replacement Vehicle		$20,000
Additions:	Negative Equity	$2,000
Subtractions:		0
Amount Paid to Dealer B		***$22,000***

Calculation of Taxable Sales Price		
Sales Price of Replacement Vehicle		$20,000
Additions:	Negative Equity	$2,000
Subtractions:		0
Taxable Sales Price		
Dealer B taxable receipts are $20,000.		
Leasing Company C's taxable receipts are $2,000.		

NOTE: Leasing Company C's taxable receipts for the lease settlement are $2,000, regardless of whether Customer A or Dealer B pays Leasing Company C the $2,000.

Example 8 – Sale of automobile with lease "trade-in," lease purchase option equal to "trade-in" amount resulting in no net equity

- Customer A leases an automobile from Leasing Company C. The terms of the lease agreement state that Customer A has the option to purchase the automobile for $8,000 at the end of the lease.
- Dealer B sells Customer A an automobile for $20,000.
- Customer A "trades-in" his old leased automobile towards his purchase of the new automobile from Dealer B and receives a "trade-in allowance" of $8,000.
- Dealer B pays the $8,000 lease payoff to Leasing Company C and provides Leasing Company C with an exemption certificate claiming resale.
- Customer A pays $20,000 to Dealer B.
- **Dealer B's taxable receipts are $20,000. Dealer B's taxable receipts may not be reduced for the "trade-in" since Dealer B's sale to Customer A and Leasing Company C's sale to Dealer B are separate transactions.**

Calculation of Amount Paid to Dealer B		
Sales Price of Replacement Vehicle		$20,000
Additions:		0
Subtractions:		0
Amount Paid to Dealer B		***$20,000***

Calculation of Taxable Sales Price		
Sales Price of Replacement Vehicle		$20,000
Additions:		0
Subtractions:		0
Taxable Sales Price		***$20,000***

NOTE: If Customer A paid the $8,000 to Leasing Company C (instead of to Dealer B), Leasing Company C's taxable receipts would include the $8,000 purchase option. Customer A could use its automobile as a trade-in, which would reduce Dealer B's selling price by $8,000. The net result would be the same. A total of $20,000 would be subject to tax: the $8,000 paid by Customer A to Leasing Company C and the $12,000 paid by Customer A to Dealer B ($20,000 selling price - $8,000 trade-in allowance).

Example 9 – Sale of automobile with lease "trade-in," lease purchase option less than "trade-in" amount resulting in positive lease equity

- Customer A leases an automobile from Leasing Company C. The terms of the lease agreement state that Customer A has the option to purchase the automobile for $8,000 at the end of the lease.
- Dealer B sells Customer A an automobile for $20,000.
- Customer A "trades-in" his old leased automobile towards its purchase of the new automobile from Dealer B and receives a "trade-in allowance" of $10,000.
- Dealer B pays the $8,000 lease payoff to Leasing Company C and provides Leasing Company C with an exemption certificate claiming resale.
- Dealer B, as a discount, reduces the selling price of the new automobile by $2,000 for the difference between the value of the leased automobile and the lease payoff.
- Customer A pays $18,000 to Dealer B.
- **Dealer B's taxable receipts are $18,000.**

Calculation of Amount Paid to Dealer B		
Sales Price of Replacement Vehicle		$20,000
Additions:		0
Subtractions:	Positive Equity	($2,000)
Amount Paid to Dealer B		***$18,000***

Calculation of Taxable Sales Price		
Sales Price of Replacement Vehicle		$20,000
Additions:		0
Subtractions:	Discount Allowed	($2,000)
Taxable Sales Price		***$18,000***

NOTE: If Customer A paid the $8,000 to Leasing Company C (instead of to Dealer B), Leasing Company C's taxable receipts would include the $8,000 purchase option. Customer A could use its automobile as a trade-in, which would reduce Dealer B's selling price by $10,000. The net result would be the same. A total of $18,000 would be subject to tax: the $8,000 paid by Customer A to Leasing Company C and the $10,000 paid by Customer A to Dealer B ($20,000 selling price - $10,000 trade-in allowance).

Example 10 – Sale of automobile with lease "trade-in," lease purchase option more than "trade-in" amount resulting in negative lease equity

- Customer A leases an automobile from Leasing Company C. The terms of the lease agreement state that Customer A has the option to purchase the automobile for $8,000 at the end of the lease.
- Dealer B sells Customer A an automobile for $20,000.
- Customer A "trades-in" his old leased automobile towards its purchase of the new automobile from Dealer B and receives a "trade-in allowance" of $6,000.
- Dealer B pays the $8,000 payoff to Leasing Company C and provides Leasing Company C with an exemption certificate claiming resale.
- Dealer B adjusts the amount due from Customer A for the new automobile by $2,000 to account for the negative equity.
- Customer A pays $22,000 to Dealer B.
- **Dealer B's taxable receipts are $22,000.**

Calculation of Amount Paid to Dealer B		
Sales Price of Replacement Vehicle		$20,000
Additions:	Negative Equity	$2,000
Subtractions:		0
Amount Paid to Dealer B		***$22,000***

Calculation of Taxable Sales Price		
Sales Price of Replacement Vehicle		$20,000
Additions:	Negative Equity	$2,000
Subtractions:		0
Taxable Sales Price		***$22,000***

NOTE: If Customer A paid the $8,000 to Leasing Company C in settlement of the lease (instead of to Dealer B), Leasing Company C's taxable receipts would include the $8,000 lease settlement. Customer A could use its automobile as a trade-in, which would reduce Dealer B's selling price by $6,000. The net result would be the same. A total of $22,000 would be subject to tax: the $8,000 paid by Customer A to Leasing Company C and the $14,000 paid by Customer A to Dealer B ($20,000 selling price - $6,000 trade-in allowance).

Example 11 – Lease of automobile with no trade-in

- Customer A leases an automobile from Leasing Company Y for an agreed upon value of $20,000.
- Customer A does not trade in another vehicle.
- The monthly lease payments are computed as follows:
  - Agreed upon value of leased automobile: $20,000
  - Additions totaling $6,000:
    - Lease acquisition fee: $500
    - Credit insurance: $1,500
    - Rent charge: $4,000
  - Subtractions totaling $12,000:
    - Cash down payment by Customer A: $1,000
    - Manufacturer's rebate: $1,000
    - Residual value: $10,000
  - Total amount to be paid by Customer A over the term of the lease is $14,000 ($20,000 + $6,000 - $12,000).
  - Total amount received by Leasing Company Y is $16,000 ($1,000 cash down payment + $1,000 manufacturer's rebate + $14,000 over the term of the lease).
- The $14,000 will be paid in equal payments over the 36-month life of the lease. Payments will be $388.89 ($14,000 ÷ 36).

- **Leasing Company Y's taxable receipts are $14,500.** The $1,500 credit insurance is not taxable. Since a portion of the nontaxable $1,500 credit insurance is included in the initial down payment and each lease payment, Leasing Company Y must apply a taxable percentage to each payment to arrive at the taxable sales price of each payment received. The taxable percentage is 90.6% ($14,500 taxable sales price ÷ $16,000 total amount received). The taxable sales price of each payment is determined as follows:

  Payment at lease signing: $1,812 (($1,000 cash down payment + $1,000 manufacturer's rebate) x 90.6% taxable percentage).

  Each lease payment: $352.33 ($388.89 payment x 90.6% taxable percentage).

Total Amount Paid to Leasing Co Y		
Sales Price of Replacement Vehicle		$20,000
Additions: Lease Acquisition Fee	$500	
Credit Insurance	$1,500	
Rent Charge	$4,000	
Total Additions		$6,000
Subtractions:		
Residual Value of Vehicle	$10,000	
Total Subtractions		($10,000)
Amount Paid to Leasing Co Y		$16,000

Calculation of Taxable Sales Price				
Sales Price of Replacement Vehicle				$20,000
Additions: Lease Acquisition Fee	$500			
Rent Charge	$4,000			
Total Additions				$4,500
Subtractions:				
Residual Value of Vehicle	$10,000			
Total Subtractions				($10,000)
Total Taxable Sales Price				$14,500
Taxable Percentage: Total Taxable Sales Price / Total Amount Received	=	$14,500 / $16,000	=	90.6%
Payment at Lease Signing:				
$2,000 (Cash Down Payment & Manufacturer's Rebate)	x	90.6% (Taxable %)	=	$1,812 (Taxable Amount)
Monthly Lease Payment:				
$388.89 (Monthly Payment)	x	90.6% (Taxable %)	=	$352.33 (Taxable)

Example 12 – Lease of automobile with owned trade-in; no lien on trade-in

- Customer A leases an automobile from Leasing Company Y for an agreed upon value of $20,000.
- Customer A trades in his old automobile and receives a trade-in allowance of $8,000.
- Customer A owns his old automobile and has no lien on the automobile.
- The monthly lease payments are computed as follows:
  - Agreed upon value of leased automobile: $20,000
  - Additions totaling $6,000:
    - Lease acquisition fee: $500
    - Credit insurance: $1,500
    - Rent charge: $4,000
  - Subtractions totaling $20,000:
    - Trade-in allowed: $8,000
    - Cash down payment by Customer A: $1,000
    - Manufacturer's rebate: $1,000
    - Residual value: $10,000
  - Total amount to be paid by Customer A over the term of the lease is $6,000 ($20,000 + $6,000 - $20,000).

  - Total amount received by Leasing Company Y is $8,000 ($1,000 cash down payment + $1,000 manufacturer's rebate + $6,000 over the term of the lease).

- The $6,000 will be paid in equal payments over the 36-month life of the lease. Payments will be $166.67 ($6,000 ÷ 36).
- **Leasing Company Y's taxable receipts are $6,500.** The $1,500 credit insurance is not taxable. Since a portion of the nontaxable $1,500 credit insurance is included in the initial down payment and each lease payment, Leasing Company Y must apply a taxable percentage to each payment to arrive at the taxable sales price of each payment received. The taxable percentage is 81.3% ($6,500 taxable sales price ÷ $8,000 total amount received). The taxable sales price of each payment is determined as follows:

  Payment at lease signing: $1,626 (($1,000 cash down payment + $1,000 manufacturer's rebate) x 81.3% taxable percentage).

  Each lease payment: $135.50 ($167.67 payment x 81.3% taxable percentage).

Total Amount Paid to Leasing Co Y			
Sales Price of Replacement Vehicle			$20,000
Additions:	Lease Acquisition Fee	$500	
	Credit Insurance	$1,500	
	Rent Charge	$4,000	
	Total Additions		$6,000
Subtractions:			
	Trade-in Allowed	$8,000	
	Residual Value of Vehicle	$10,000	
	Total Subtractions		($18,000)
Amount Paid to Leasing Co Y			$8,000

Calculation of Taxable Sales Price				
Sales Price of Replacement Vehicle				$20,000
Additions:	Lease Acquisition Fee	$500		
	Rent Charge	$4,000		
	Total Additions			$4,500
Subtractions:				
	Trade-in Allowed	$8,000		
	Residual Value of Vehicle	$10,000		
	Total Subtractions			($18,000)
Total Taxable Sales Price				$6,500
Taxable Percentage:				
	Total Taxable Sales Price / Total Amount Received	=	$6,500 / $8,000	= 81.3%
Payment at Lease Signing:				
$2,000 (Cash Down Payment & Manufacturer's Rebate)	x	81.3% (Taxable %)	=	$1,626 (Taxable Amount)
Monthly Lease Payment:				
$166.67 (Monthly Payment)	x	81.3% (Taxable %)	=	$135.50 (Taxable)

Example 13 – Lease of automobile with owned trade-in; lien less than trade-in amount

- Customer A leases an automobile from Leasing Company Y for an agreed upon value of $20,000.
- Customer A trades in his old automobile and receives a trade-in allowance of $8,000.
- Customer A has a lien on his old automobile for $6,000.
- The monthly lease payments are computed as follows:
  - Agreed upon value of leased automobile: $20,000
  - Additions totaling $12,000:
    - Lease acquisition fee: $500
    - Credit insurance: $1,500
    - Rent charge: $4,000
    - Lien payoff of automobile traded-in: $6,000

  - Subtractions totaling $20,000:
    - Trade-in allowed: $8,000
    - Cash down payment by Customer A: $1,000
    - Manufacturer's rebate: $1,000
    - Residual value: $10,000
  - Total amount to be paid by Customer A over the term of the lease is $12,000 ($20,000 + $12,000 - $20,000).
  - Total amount received by Leasing Company Y is $14,000 ($1,000 cash down payment + $1,000 manufacturer's rebate + $12,000 over the term of the lease).
- The $12,000 will be paid in equal payments over the 36-month life of the lease. Payments will be $333.33 ($12,000 ÷ 36).
- **Leasing Company Y's taxable receipts are $6,500.** The $1,500 credit insurance and $6,000 lien payoff amount are not taxable. Since a portion of the nontaxable $1,500 credit insurance and lien payoff are included in the initial down payment and each lease payment, Leasing Company Y must apply a taxable percentage to each payment to arrive at the taxable sales price of each payment received. The taxable percentage is 46.4% ($6,500 taxable sales price ÷ $14,000 total amount received). The taxable sales price of each payment is determined as follows:

  Payment at lease signing: $928 (($1,000 cash down payment + $1,000 manufacturer's rebate) x 46.4% taxable percentage).

  Each lease payment: $154.67 ($333.33 payment x 46.4% taxable percentage).

Total Amount Paid to Leasing Co Y		
Sales Price of Replacement Vehicle		$20,000
Additions: Lease Acquisition Fee	$500	
Credit Insurance	$1,500	
Lien Payoff of Vehicle Traded-in	$6,000	
Rent Charge	$4,000	
Total Additions		$12,000
Subtractions:		
Trade-in Allowed	$8,000	
Residual Value of Vehicle	$10,000	
Total Subtractions		($18,000)
Amount Paid to Leasing Co Y		$14,000

Calculation of Taxable Sales Price			
Sales Price of Replacement Vehicle			$20,000
Additions: Lease Acquisition Fee		$500	
Rent Charge		$4,000	
Total Additions			$4,500
Subtractions:			
Trade-in Allowed		$8,000	
Residual Value of Vehicle		$10,000	
Total Subtractions			($18,000)
Total Taxable Sales Price			$6,500
Taxable Percentage: Total Taxable Sales Price / Total Amount Received	=	$6,500 / $14,000	= 46.4%
Payment at Lease Signing:			
$2,000 (Cash Down Payment & Manufacturer's Rebate)	x	46.4% (Taxable %)	= $928 (Taxable Amount)
Monthly Lease Payment:			
$333.33 (Monthly Payment)	x	46.4% (Taxable %)	= $154.67 (Taxable)

Example 14 – Lease of automobile with owned trade-in; lien more than trade-in amount

- Customer A leases an automobile from Leasing Company Y for an agreed upon value of $20,000.
- Customer A trades in his old automobile and receives a trade-in allowance of $8,000.
- Customer A has a lien on his old automobile for $10,000.
- The monthly lease payments are computed as follows:
  - Agreed upon value of leased automobile: $20,000

- Additions totaling $16,000:
  - Lease acquisition fee: $500
  - Credit insurance: $1,500
  - Rent charge: $4,000
  - Lien payoff of automobile traded-in: $10,000
- Subtractions totaling $20,000:
  - Trade-in allowed: $8,000
  - Cash down payment by Customer A: $1,000
  - Manufacturer's rebate: $1,000
  - Residual value: $10,000
- Total amount to be paid by Customer A over the term of the lease is $16,000 ($20,000 + $16,000 - $20,000).
- Total amount received by Leasing Company Y is $18,000 ($1,000 cash down payment + $1,000 manufacturer's rebate + $16,000 over the term of the lease).

- The $16,000 will be paid in equal payments over the 36-month life of the lease. Payments will be $444.44 ($16,000 ÷ 36).
- **Leasing Company Y's taxable receipts are $6,500.** The $1,500 credit insurance and the $10,000 lien payoff amount are not taxable. Since a portion of the nontaxable $1,500 credit insurance and lien payoff are included in the initial down payment and each lease payment, Leasing Company Y must apply a taxable percentage to each payment to arrive at the taxable sales price of each payment received. The taxable percentage is 36.1% ($6,500 taxable sales price ÷ $18,000 total amount received). The taxable sales price of each payment is determined as follows:

  Payment at lease signing: $722 (($1,000 cash down payment + $1,000 manufacturer's rebate) x 36.1% taxable percentage).

  Each lease payment: $160.44 ($444.44 payment x 36.1% taxable percentage).

Total Amount Paid to Leasing Co Y		
Sales Price of Replacement Vehicle		$20,000
Additions: Lease Acquisition Fee	$500	
Credit Insurance	$1,500	
Lien Payoff of Vehicle Traded-in	$10,000	
Rent Charge	$4,000	
Total Additions		$16,000
Subtractions:		
Trade-in Allowed	$8,000	
Residual Value of Vehicle	$10,000	
Total Subtractions		($18,000)
Amount Paid to Leasing Co Y		$18,000

Calculation of Taxable Sales Price				
Sales Price of Replacement Vehicle				$20,000
Additions: Lease Acquisition Fee		$500		
Rent Charge		$4,000		
Total Additions				$4,500
Subtractions:				
Trade-in Allowed		$8,000		
Residual Value of Vehicle		$10,000		
Total Subtractions				($18,000)
Total Taxable Sales Price				$6,500
Taxable Percentage:				
Total Taxable Sales Price / Total Amount Received	=	$6,500 / $18,000	= 36.1%	
Payment at Lease Signing:				
$2,000 (Cash Down Payment & Manufacturer's Rebate)	x	36.1% (Taxable %)	=	$722 (Taxable Amount)
Monthly Lease Payment:				
$444.44 (Monthly Payment)	x	36.1% (Taxable %)	=	$160.44 (Taxable)

Example 15 – Lease of automobile with lease "turn-in"; no lease equity

- Customer A leases an automobile from leasing Company C, with an option to return the automobile at the end of the lease period (i.e., no additional amount is owed by Customer A to Leasing Company C).
- Customer A leases a new automobile from Leasing Company Y for an agreed upon value of $20,000.
- Customer A "turns-in" his old leased automobile to Leasing Company Y, who facilitates the return of the automobile to Leasing Company C.
- The monthly lease payments are computed as follows:
  - Agreed upon value of leased automobile: $20,000
  - Additions totaling $6,000:
    - Lease acquisition fee: $500
    - Credit insurance: $1,500
    - Rent charge: $4,000
  - Subtractions totaling $12,000:
    - Cash down payment by Customer A: $1,000
    - Manufacturer's rebate: $1,000
    - Residual value: $10,000
  - Total amount to be paid by Customer A over the term of the lease is $14,000 ($20,000 + $6,000 - $12,000).
  - Total amount received by Leasing Company Y is $16,000 ($1,000 cash down payment + $1,000 manufacturer's rebate + $14,000 over the term of the lease).
- The $14,000 will be paid in equal payments over the 36-month life of the lease. Payments will be $388.89 ($14,000 ÷ 36).
- **Leasing Company Y's taxable receipts are $14,500.** The $1,500 credit insurance is not taxable. Since a portion of the nontaxable $1,500 credit insurance is included in the initial down payment and each lease payment, Leasing Company Y must apply a taxable percentage to each payment to arrive at the taxable sales price of each payment received. The taxable percentage is 90.6% ($14,500 taxable sales price ÷ $16,000 total amount received). The taxable sales price of each payment is determined as follows:

  Payment at lease signing: $1,812 (($1,000 cash down payment + $1,000 manufacturer's rebate) x 90.6% taxable percentage).

  Each lease payment: $352.33 ($388.89 payment x 90.6% taxable percentage).

Total Amount Paid to Leasing Co Y		
Sales Price of Replacement Vehicle		$20,000
Additions: Lease Acquisition Fee	$500	
Credit Insurance	$1,500	
Rent Charge	$4,000	
Total Additions		$6,000
Subtractions:		
Residual Value of Vehicle	$10,000	
Total Subtractions		($10,000)
Amount Paid to Leasing Co Y		$16,000

Calculation of Taxable Sales Price				
Sales Price of Replacement Vehicle				$20,000
Additions: Lease Acquisition Fee		$500		
Rent Charge		$4,000		
Total Additions				$4,500
Subtractions:				
Residual Value of Vehicle		$10,000		
Total Subtractions				($10,000)
Total Taxable Sales Price				$14,500
Taxable Percentage: Total Taxable Sales Price / Total Amount Received	=	$14,500 / $16,000	=	90.6%
Payment at Lease Signing:				
$2,000 (Cash Down Payment & Manufacturer's Rebate)	x	90.6% (Taxable %)	=	$1,812 (Taxable Amount)
Monthly Lease Payment:				
$388.89 (Monthly Payment)	x	90.6% (Taxable %)	=	$352.33 (Taxable)

Example 16 – Lease of automobile with lease "turn in"; positive lease equity

- Customer A leases an automobile from Leasing Company C, with an option to return the automobile at the end of the lease period.
- Customer A has $2,000 positive lease equity at the end of the lease.
- Customer A leases a new automobile from Leasing Company Y for an agreed upon value of $20,000.
- Customer A "turns-in" his old leased automobile to Leasing Company Y, who facilitates the return of the automobile to Leasing Company C.
- Leasing Company C pays $2,000 positive equity to Leasing Company Y on behalf of Customer A. At the option of Customer A, Leasing Company Y applies the $2,000 as an adjustment to the capitalized cost reduction computation.
- The monthly lease payments are computed as follows:
  - Agreed upon value of leased automobile: $20,000
  - Additions totaling $6,000:
    - Lease acquisition fee: $500
    - Credit insurance: $1,500
    - Rent charge: $4,000
  - Subtractions totaling $14,000:
    - Positive equity: $2,000
    - Cash down payment by Customer A: $1,000
    - Manufacturer's rebate: $1,000
    - Residual value: $10,000
  - Total amount to be paid over the term of the lease is $12,000 ($20,000 + $6,000 - $14,000).
  - Total amount received by Leasing Company Y is $16,000 ($2,000 positive equity from Leasing Company C + $1,000 cash down payment + $1,000 manufacturer's rebate + $12,000 over the term of the lease).
- The $12,000 will be paid in equal payments over the 36-month life of the lease. Payments will be $333.33 ($12,000 ÷ 36).
- **Leasing Company Y's taxable receipts are $14,500.** The $1,500 credit insurance is not taxable. Since a portion of the nontaxable $1,500 credit insurance is included in the initial down payment and each lease payment, Leasing Company Y must apply a taxable percentage to each payment to arrive at the taxable sales price of each payment received. The taxable percentage is 90.6% ($14,500 taxable sales price ÷ $16,000 total amount received). The taxable sales price of each payment is determined as follows:

  Payment at lease signing: $3,624 (($2,000 positive equity + $1,000 cash down payment plus $1,000 manufacturer's rebate) x 90.6% taxable percentage).

  Each lease payment: $302.00 ($333.33 payment x 90.6% taxable percentage).

Total Amount Paid to Leasing Co Y			
Sales Price of Replacement Vehicle			$20,000
Additions:	Lease Acquisition Fee	$500	
	Credit Insurance	$1,500	
	Rent Charge	$4,000	
	Total Additions		$6,000
Subtractions:			
	Residual Value of Vehicle	$10,000	
	Total Subtractions		($10,000)
Amount Paid to Leasing Co Y			$16,000

Calculation of Taxable Sales Price			
Sales Price of Replacement Vehicle			$20,000
Additions:	Lease Acquisition Fee	$500	
	Rent Charge	$4,000	
	Total Additions		$4,500
Subtractions:			
	Residual Value of Vehicle	$10,000	
	Total Subtractions		($10,000)
Total Taxable Sales Price			$14,500

	Taxable Percentage: Total Taxable Sales Price / Total Amount Received = $14,500 / $16,000 = 90.6%
	Payment at Lease Signing: $4,000 (Cash Down Payment & Manufacturer's Rebate) x 90.6% (Taxable %) = $3,624 (Taxable Amount)
	Monthly Lease Payment: $333.33 (Monthly Payment) x 90.6% (Taxable %) = $302.00 (Taxable)

Example 17 – Lease of automobile with lease "turn-in"; negative lease equity

- Customer A leases an automobile from leasing Company C, with an option to return the automobile at the end of the lease period.
- Customer A has $2,000 negative lease equity at the end of the lease.
- Customer A leases a new automobile from Leasing Company Y for an agreed upon value of $20,000.
- Customer A "turns-in" his old leased automobile to Leasing Company Y, who facilitates the return of the automobile to Leasing Company C.
- On behalf of Customer A, Leasing Company Y pays Leasing Company C the $2,000 amount in settlement of the lease, plus sales tax on the $2,000. There is no exemption for Leasing Company C's receipts in settlement of the lease.
- Leasing Company Y increases the amount that it will collect from Customer A by $2,000, plus tax, to reimburse itself for the payment to Leasing Company C for the negative equity.
- Leasing Company Y adjusts the capitalized cost reduction computation of the new automobile by $2,000 to account for the amount of the negative equity.
- The monthly lease payments are computed as follows:
  - Agreed upon value of leased automobile: $20,000
  - Additions totaling $8,000:
    - Lease acquisition fee: $500
    - Credit insurance: $1,500
    - Rent charge: $4,000
    - Negative equity: $2,000
  - Subtractions totaling $12,000:
    - Cash down payment by Customer A: $1,000
    - Manufacturer's rebate: $1,000
    - Residual value: $10,000
  - Total amount to be paid over the term of the lease is $16,000 ($20,000 + $8,000 - $12,000).
  - Total amount received by Leasing Company Y is $18,000 ($1,000 cash down payment + $1,000 manufacturer's rebate + $16,000 over the term of the lease).
- The $16,000 will be paid in equal payments over the 36-month life of the lease. Payments will be $444.44 ($16,000 ÷ 36).
- **Although Leasing Company Y's taxable receipts are $14,500, it will collect sales tax on $16,500, which includes the $2,000 reimbursement for its payment to Leasing Company C.** The $1,500 credit insurance is not taxable. Since a portion of the nontaxable $1,500 credit insurance is included in the initial down payment and each lease payment, Leasing Company Y must apply a taxable percentage to each payment to arrive at the taxable sales price of each payment received. The taxable percentage that Leasing Company Y will collect tax on is 91.7% ($16,500 taxable sales price ÷ $18,000 total amount received), and the taxable percentage that Leasing Company Y will report and remit tax on is 80.56%* (($16,500 taxable sales price - $2,000 reimbursement paid to Leasing Company C) ÷ $18,000 total amount received *). Leasing Company C's taxable receipts are $2,000, from the lease settlement. The taxable sales price of each payment is determined as follows:

Payment at lease signing: The amount received at signing is $2,000 ($1,000 cash down payment + $1,000 manufacturer's rebate).

- Leasing Company Y should charge Customer A tax on $1,834 ($2,000 x 91.7% taxable percentage).
- Leasing Company Y's taxable receipts are $1,611.20 ($2,000 x 80.56%* taxable percentage).

Each lease payment: A total of $16,000 is due over the term of the lease ($18,000 total received by Leasing Company Y - $2,000 due at signing/capitalized cost reduction).

- Leasing Company Y should charge Customer A tax on $407.55 of each payment ($444.44 payment x 91.7% taxable percentage).
- Leasing Company Y's taxable receipts of each payment are $358.04 ($444.44 payment x 80.56%* taxable percentage).

*The difference between the tax collected at 91.7% and the tax collected at 80.56% represents tax on the $2,000 negative equity that Leasing Company Y paid to Leasing Company C. Leasing Company C's taxable receipts are $2,000. Leasing Company Y is reimbursed by Customer A for the negative equity and tax that it paid to Leasing Company C on Customer A's behalf.

Total Amount Paid to Leasing Co Y			
Sales Price of Replacement Vehicle			$20,000
Additions:	Lease Acquisition Fee	$500	
	Credit Insurance	$1,500	
	Rent Charge	$4,000	
	Negative Equity	$2,000	
	Total Additions		$8,000
Subtractions:			
	Residual Value of Vehicle	$10,000	
	Total Subtractions		($10,000)
Amount Paid to Leasing Co Y			$18,000

Calculation of Taxable Sales Price			
Sales Price of Replacement Vehicle			$20,000
Additions:	Lease Acquisition Fee	$500	
	Rent Charge	$4,000	
	Negative Equity	$2,000	
	Total Additions		$6,500
Subtractions:			
	Residual Value of Vehicle	$10,000	
	Total Subtractions		($10,000)
Taxable Amount			$16,500

Percentage for Tax ***Collection*** by Leasing Company Y:

$$\frac{\text{Total Taxable Amount}}{\text{Total Amount Received}} = \frac{\$16{,}500}{\$18{,}000} = 91.7\%$$

Leasing Company Y should collect tax on 91.7%.

Percentage for Tax ***Payment*** by Leasing Co. Y:

$$\frac{\text{Taxable Receipts}}{\text{Total Amount Received}} = \frac{\$14{,}500}{\$18{,}000} = 80.56\%$$

Leasing Company Y's taxable percentage is 80.56%.
Leasing Company C's taxable receipts are $2,000.

Payment at Lease Signing:

$2,000	x	91.7%	=	$1,834
(Cash Down Payment & Manufacturer's Rebate)		(Taxable % for Collection)		(Taxable Amount)

Leasing Company Y should collect tax on $1,834.

$2,000	x	80.56%	=	$1,611.20
(Cash Down Payment & Manufacturer's Rebate)		(Taxable %)		(Taxable Amount)

Leasing Company Y's taxable sales price is $1,611.20.

	Monthly Lease Payment: $444.44 x 91.7% = $407.55 (Monthly Payment) (Taxable % for Collection) (Taxable) ***Leasing Company Y should collect tax on $407.55.*** $444.44 x 80.56% = $358.04 (Monthly Payment) (Taxable %) (Taxable) ***Leasing Company Y's taxable sales price is $358.04.***

Example 18 – Lease of automobile with leased "trade-in"; lease purchase option equal to "trade-in" amount, resulting in no net equity

- Customer A leases an automobile from Leasing Company C. The terms of the lease agreement state that Customer A has the option to purchase the automobile for $8,000 at the end of the lease.
- Customer A leases a new automobile from Leasing Company Y for an agreed upon value of $20,000.
- Customer A "trades-in" his old leased automobile towards its lease of a new automobile form Leasing Company Y and receives a "trade-in allowance" of $8,000.
- Leasing Company Y pays the $8,000 lease payoff to Leasing Company C and provides Leasing Company C with an exemption certificate claiming resale, since Leasing Company Y will sell or lease Customer A's old automobile.
- The monthly lease payments are computed as follows:
  - Agreed upon value of leased automobile: $20,000
  - Additions totaling $6,000:
    - Lease acquisition fee: $500
    - Credit insurance: $1,500
    - Rent charge: $4,000
  - Subtractions totaling $12,000:
    - Cash down payment by Customer A: $1,000
    - Manufacturer's rebate: $1,000
    - Residual value: $10,000
  - Total amount to be paid by Customer A over the term of the lease is $14,000 ($20,000 + $6,000 - $12,000).
  - Total amount received by Leasing Company Y is $16,000 ($1,000 cash down payment + $1,000 manufacturer's rebate + $14,000 over the term of the lease).
- The $14,000 will be paid in equal payments over the 36-month life of the lease. Payments will be $388.89 $14,000 ÷ 36).
- **Leasing Company Y's taxable receipts are $14,500.** The $1,500 credit insurance is not taxable. Since a portion of the nontaxable $1,500 credit insurance is included in the initial down payment and each lease payment, Leasing Company Y must apply a taxable percentage to each payment to arrive at the taxable sales price of each payment received. The taxable percentage is 90.6% ($14,500 taxable sales price ÷ $16,000 total amount received). The taxable sales price of each payment is determined as follows:

  Payment at lease signing: $1,812 (($1,000 cash down payment + $1,000 manufacturer's rebate) x 90.6% taxable percentage).

  Each lease payment: $352.33 ($388.89 payment x 90.6% taxable percentage).

Total Amount Paid to Leasing Co Y			
Sales Price of Replacement Vehicle			$20,000
Additions:	Lease Acquisition Fee	$500	
	Credit Insurance	$1,500	
	Rent Charge	$4,000	
	Total Additions		$14,000
Subtractions:			
	Residual Value of Vehicle	$10,000	
	Total Subtractions		($18,000)
Amount Paid to Leasing Co Y			$16,000

Calculation of Taxable Sales Price				
Sales Price of Replacement Vehicle				$20,000
Additions:	Lease Acquisition Fee		$500	
	Rent Charge		$4,000	
	Total Additions			$4,500
Subtractions:				
	Residual Value of Vehicle		$10,000	
	Total Subtractions			($10,000)
Total Taxable Sales Price				$14,500
Taxable Percentage:				
	Total Taxable Sales Price / Total Amount Received	=	$14,500 / $16,000	= 90.6%
Payment at Lease Signing:				
$2,000 (Cash Down Payment & Manufacturer's Rebate)	x	90.6% (Taxable %)	=	$1,812 (Taxable Amount)
Monthly Lease Payment:				
$388.89 (Monthly Payment)	x	90.6% (Taxable %)	=	$352.33 (Taxable)

NOTE: If Customer A paid the $8,000 to Leasing Company C in settlement of the lease (instead of to Leasing Company Y), Leasing Company C's taxable receipts would include the $8,000 lease settlement. Customer A could use its automobile as a trade-in, which would reduce Leasing Company Y's selling price by $8,000. The net result would be the same. A total of $14,500 would be subject to tax: the $8,000 paid by Customer A to Leasing Company C and the $6,500 paid by Customer A to Leasing Company Y ($14,500 selling price minus the $8,000 trade-in allowance = $6,500).

Example 19 – Lease of automobile with leased "trade-in"; lease purchase option less than "trade-in" amount, resulting in positive lease equity

- Customer A leases an automobile from Leasing Company C. The terms of the lease agreement state that Customer A has the option to purchase the automobile for $8,000 at the end of the lease.
- Customer A leases a new automobile from Leasing Company Y for an agreed upon value of $20,000.
- Customer A "trades-in" his old leased automobile towards its lease of a new automobile from Leasing Company Y and receives a "trade-in allowance" of $10,000.
- Leasing Company Y pays the $8,000 lease payoff to Leasing Company C and provides Leasing Company C with an exemption certificate claiming resale, since Leasing Company Y will sell or lease Customer A's old automobile.
- Leasing Company Y, as a discount, reduces the agreed upon lease value of the new leased automobile by $2,000 for the difference between the value of the old leased automobile and the lease payoff.
- The monthly lease payments are computed as follows:
  - Agreed upon value of leased automobile: $20,000
  - Additions totaling $6,000:
    - Lease acquisition fee: $500
    - Credit insurance: $1,500
    - Rent charge: $4,000

- Subtractions totaling $14,000:
  - Positive Equity/Discount Allowed: $2,000
  - Cash down payment by Customer A: $1,000
  - Manufacturer's rebate: $1,000
  - Residual value: $10,000
- Total amount to be paid by Customer A over the term of the lease is $12,000 ($20,000 + $6,000 - $14,000).
- Total amount received by Leasing Company Y is $14,000 ($1,000 cash down payment + $1,000 manufacturer's rebate + $12,000 over the term of the lease).

- The $12,000 will be paid in equal payments over the 36-month life of the lease. Payments will be $333.33 ($12,000 ÷ 36).
- **Leasing Company Y's taxable receipts are $12,500.** The $1,500 credit insurance is not taxable. Since a portion of the nontaxable $1,500 credit insurance is included in the initial down payment and each lease payment, Leasing Company Y must apply a taxable percentage to each payment to arrive at the taxable sales price of each payment received. The taxable percentage is 89.3% ($12,500 taxable sales price ÷ $14,000 total amount received). The taxable sales price of each payment is determined as follows:

  Payment at lease signing: $1,786 (($1,000 cash down payment + $1,000 manufacturer's rebate) x 89.3% taxable percentage).

  Each lease payment: $297.66 ($333.33 payment x 89.3% taxable percentage).

Total Amount Paid to Leasing Co Y		
Sales Price of Replacement Vehicle		$20,000
Additions: Lease Acquisition Fee	$500	
Credit Insurance	$1,500	
Rent Charge	$4,000	
Total Additions		$6,000
Subtractions:		
Positive Equity	$2,000	
Residual Value of Vehicle	$10,000	
Total Subtractions		($12,000)
Amount Paid to Leasing Co Y		$14,000

Calculation of Taxable Sales Price			
Sales Price of Replacement Vehicle			$20,000
Additions: Lease Acquisition Fee	$500		
Rent Charge	$4,000		
Total Additions			$4,500
Subtractions:			
Discount Allowed for Positive Equity	$2,000		
Residual Value of Vehicle	$10,000		
Total Subtractions			($12,000)
Total Taxable Sales Price			$12,500
Taxable Percentage: Total Taxable Sales Price / Total Amount Received	= $12,500 / $14,000		= 89.3%
Payment at Lease Signing:			
$2,000 (Cash Down Payment & Manufacturer's Rebate)	x	89.3% (Taxable %)	= $1,786 (Taxable Amount)
Monthly Lease Payment:			
$333.33 (Monthly Payment)	x	89.3% (Taxable %)	= $297.66 (Taxable)

NOTE: If Customer A paid the $8,000 to Leasing Company C (instead of to Leasing Company Y), Leasing Company C's taxable receipts would include the $8,000 purchase option. Customer A could use its automobile as a trade-in, which would reduce Dealer B's selling price by $12,500. The net result would be the same. A total of $18,000 would be subject to tax: the $8,000 paid by Customer A to Leasing Company C and the $4,500 paid by Customer A to Leasing Company Y ($14,500 selling price, without discount - $10,000 trade-in allowance).

Example 20 – Lease of automobile with leased "trade-in"; lease purchase option more than "trade-in" amount, resulting in negative equity

- Customer A leases an automobile from Leasing Company C. The terms of the lease agreement state that Customer A has the option to purchase the automobile for $8,000 at the end of the lease.
- Customer A leases a new automobile from Leasing Company Y for an agreed upon value of $20,000.
- Customer A "trades-in" his old leased automobile towards its lease of a new automobile from Leasing Company Y and receives a "trade-in allowance" of $6,000.
- Leasing Company Y pays the $8,000 lease payoff to Leasing Company C and provides Leasing Company C with an exemption certificate claiming resale, since Leasing Company Y will sell or lease Customer A's old automobile.
- Leasing Company Y adjusts the amount due from Customer A for the new leased automobile by $2,000 to account for the negative equity.
- The monthly lease payments are computed as follows:
  - Agreed upon value of leased automobile: $20,000
  - Additions totaling $8,000:
    - Negative Equity: $2,000
    - Lease acquisition fee: $500
    - Credit insurance: $1,500
    - Rent charge: $4,000
  - Subtractions totaling $12,000:
    - Cash down payment by Customer A: $1,000
    - Manufacturer's rebate: $1,000
    - Residual value: $10,000
  - Total amount to be paid by Customer A over the term of the lease is $16,000 ($20,000 + $8,000 - $12,000).
  - Total amount received by Leasing Company Y is $18,000 ($1,000 cash down payment + $1,000 manufacturer's rebate + $16,000 over the term of the lease).
- The $16,000 will be paid in equal payments over the 36-month life of the lease. Payments will be $444.44 ($16,000 ÷ 36).
- **Leasing Company Y's taxable receipts are $16,500.** The $1,500 credit insurance is not taxable. Since a portion of the nontaxable $1,500 credit insurance is included in the initial down payment and each lease payment, Leasing Company Y must apply a taxable percentage to each payment to arrive at the taxable sales price of each payment received. The taxable percentage is 91.7% ($16,500 taxable amount ÷ $18,000 total amount received). The taxable sales price of each payment is determined as follows:

  Payment at lease signing: $1,834 (($1,000 cash down payment + $1,000 manufacturer's rebate) x 91.7% taxable percentage).

  Each lease payment: $407.55 ($444.44 payment x 91.7% taxable percentage).

Total Amount Paid to Leasing Co Y			
Sales Price of Replacement Vehicle			$20,000
Additions:	Lease Acquisition Fee	$500	
	Credit Insurance	$1,500	
	Rent Charge	$4,000	
	Negative Equity	$2,000	
	Total Additions		$8,000
Subtractions:			
	Residual Value of Vehicle	$10,000	
	Total Subtractions		($10,000)
Amount Paid to Leasing Co Y			$18,000

Calculation of Taxable Sales Price			
Sales Price of Replacement Vehicle			$20,000
Additions:	Lease Acquisition Fee	$500	
	Rent Charge	$4,000	
	Negative Equity	$2,000	
	Total Additions		$6,500
Subtractions:			
	Residual Value of Vehicle	$10,000	
	Total Subtractions		($10,000)
Total Taxable Sales Price			$16,500

Taxable Percentage:				
Total Taxable Sales Price	=	$16,500	= 91.7%	
Total Amount Received		$18,000		
Payment at Lease Signing:				
$2,000	x	91.7%	=	$1,834
(Cash Down Payment & Manufacturer's Rebate)		(Taxable %)		(Taxable Amount)
Monthly Lease Payment:				
$444.44	x	91.7%	=	$407.55
(Monthly Payment)		(Taxable %)		(Taxable)

NOTE: If Customer A paid the $8,000 to Leasing Company C in settlement of the lease (instead of to Leasing Company Y), Leasing Company C’s taxable receipts would include the $8,000 lease settlement. Customer A could use its automobile as a trade-in, which would reduce Leasing Company Y’s selling price by $6,000. The net result would be the same. A total of $16,500 would be subject to tax: the $8,000 paid by Customer A to Leasing Company C and the $8,500 paid by Customer A to Leasing Company Y ($14,500 selling price - $6,000 trade-in allowance).