

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).

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

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

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

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

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

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

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

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	<u>\$2,000</u>
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

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

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.

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

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 two 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).

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

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).

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

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).

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

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).

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

Total Amount Paid to Leasing Co Y	
Sales Price of Replacement Vehicle	\$20,000
Additions:	
Lease Acquisition Fee	\$500
Credit Insurance	\$1,500
<u>Rent Charge</u>	<u>\$4,000</u>
Total Additions	\$6,000
Subtractions:	
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
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
<u>Rent Charge</u>	<u>\$4,000</u>
Total Additions	\$4,500
Subtractions:	
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
Total Subtractions	(\$10,000)
Total Taxable Sales Price	\$14,500
Taxable Percentage:	
<u>Total Taxable Sales Price</u>	<u>= \$14,500</u>
Total Amount Received	\$16,000
	= 90.6%
Payment at Lease Signing:	
\$2,000	x 90.6% = \$1,812
(Cash Down Payment & Manufacturer's Rebate)	(Taxable %) (Taxable Amount)
Monthly Lease Payment:	
\$388.89	x 90.6% = \$352.33
(Monthly Payment)	(Taxable %) (Taxable)

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

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 ($\$6,000 \div 36$).
- **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 \div $\$8,000$ 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).

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

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

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

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 ($\$12,000 \div 36$).
- **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 \div $\$14,000$ 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) \times 46.4% taxable percentage).
 - Each lease payment:** \$154.67 ($\333.33 payment \times 46.4% taxable percentage).

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

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
<u>Rent Charge</u>	<u>\$4,000</u>
Total Additions	\$12,000
Subtractions:	
Trade-in Allowed	\$8,000
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
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
<u>Rent Charge</u>	<u>\$4,000</u>
Total Additions	\$4,500
Subtractions:	
Trade-in Allowed	\$8,000
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
Total Subtractions	(\$18,000)
Total Taxable Sales Price	\$6,500
Taxable Percentage:	
<u>Total Taxable Sales Price</u>	<u>= \$6,500 = 46.4%</u>
Total Amount Received	\$14,000
Payment at Lease Signing:	
\$2,000	x 46.4% = \$928
(Cash Down Payment & Manufacturer's Rebate)	(Taxable (Taxable Amount))
%	%)
Monthly Lease Payment:	
\$333.33	x 46.4% = \$154.67
(Monthly Payment)	(Taxable %) (Taxable)

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

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 ($\$16,000 \div 36$).
- **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 \div $\$18,000$ 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) \times 36.1% taxable percentage).
 - Each lease payment:** \$160.44 ($\444.44 payment \times 36.1% taxable percentage).

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

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
<u>Rent Charge</u>	<u>\$4,000</u>
Total Additions	\$16,000
Subtractions:	
Trade-in Allowed	\$8,000
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
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
<u>Rent Charge</u>	<u>\$4,000</u>
Total Additions	\$4,500
Subtractions:	
Trade-in Allowed	\$8,000
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
Total Subtractions	(\$18,000)
Total Taxable Sales Price	\$6,500
Taxable Percentage:	
<u>Total Taxable Sales Price</u>	<u>= \$6,500 = 36.1%</u>
Total Amount Received	\$18,000
Payment at Lease Signing:	
\$2,000	x 36.1% = \$722
(Cash Down Payment & Manufacturer's Rebate)	(Taxable %) (Taxable Amount)
Monthly Lease Payment:	
\$444.44	x 36.1% = \$160.44
(Monthly Payment)	(Taxable %) (Taxable)

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

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 ($\$14,000 \div 36$).
- **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 \div $\$16,000$ 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).

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

Total Amount Paid to Leasing Co Y	
Sales Price of Replacement Vehicle	\$20,000
Additions:	
Lease Acquisition Fee	\$500
Credit Insurance	\$1,500
<u>Rent Charge</u>	<u>\$4,000</u>
Total Additions	\$6,000
Subtractions:	
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
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
<u>Rent Charge</u>	<u>\$4,000</u>
Total Additions	\$4,500
Subtractions:	
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
Total Subtractions	(\$10,000)
Total Taxable Sales Price	\$14,500
Taxable Percentage:	
<u>Total Taxable Sales Price</u>	<u>= \$14,500 = 90.6%</u>
Total Amount Received	\$16,000
Payment at Lease Signing:	
\$2,000	x 90.6% = \$1,812
(Cash Down Payment & Manufacturer's Rebate)	(Taxable %) (Taxable Amount)
Monthly Lease Payment:	
\$388.89	x 90.6% = \$352.33
(Monthly Payment)	(Taxable %) (Taxable)

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

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 ($\$12,000 \div 36$).
- **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 \div $\$16,000$ 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) \times 90.6% taxable percentage).
 - Each lease payment:** \$302.00 ($\333.33 payment \times 90.6% taxable percentage).

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

Total Amount Paid to Leasing Co Y	
Sales Price of Replacement Vehicle	\$20,000
Additions:	
Lease Acquisition Fee	\$500
Credit Insurance	\$1,500
<u>Rent Charge</u>	<u>\$4,000</u>
Total Additions	\$6,000
Subtractions:	
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
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
<u>Rent Charge</u>	<u>\$4,000</u>
Total Additions	\$4,500
Subtractions:	
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
Total Subtractions	(\$10,000)
Total Taxable Sales Price	\$14,500
Taxable Percentage:	
<u>Total Taxable Sales Price</u>	<u>= \$14,500 = 90.6%</u>
Total Amount Received	\$16,000
Payment at Lease Signing:	
\$4,000	x 90.6% = \$3,624
(Cash Down Payment & Manufacturer's Rebate)	(Taxable %) (Taxable Amount)
Monthly Lease Payment:	
\$333.33	x 90.6% = \$302.00
(Monthly Payment)	(Taxable %) (Taxable)

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

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 ($\$16,000 \div 36$).

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

- 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
<u>Negative Equity</u>	<u>\$2,000</u>
Total Additions	\$8,000
Subtractions:	
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
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
<u>Negative Equity</u>	<u>\$2,000</u>
Total Additions	\$6,500
Subtractions:	
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
Total Subtractions	(\$10,000)
Taxable Amount	\$16,500

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

	<p>Percentage for Tax Collection by Leasing Company Y:</p> $\frac{\text{Total Taxable Amount}}{\text{Total Amount Received}} = \frac{\$16,500}{\$18,000} = 91.7\%$ <p>Leasing Company Y should collect tax on 91.7%.</p> <p>Percentage for Tax Payment by Leasing Co. Y:</p> $\frac{\text{Taxable Receipts}}{\text{Total Amount Received}} = \frac{\$14,500}{\$18,000} = 80.56\%$ <p>Leasing Company Y's taxable percentage is 80.56%. Leasing Company C's taxable receipts are \$2,000.</p> <hr/> <p>Payment at Lease Signing:</p> $\begin{array}{rcl} \$2,000 & \times & 91.7\% = \$1,834 \\ \text{(Cash Down Payment \& } & \text{(Taxable \% } & \text{(Taxable} \\ \text{Manufacturer's Rebate)} & \text{for Collection)} & \text{Amount)} \end{array}$ <p>Leasing Company Y should collect tax on \$1,834.</p> $\begin{array}{rcl} \$2,000 & \times & 80.56\% = \$1,611.20 \\ \text{(Cash Down Payment \& } & \text{(Taxable } & \text{(Taxable} \\ \text{Manufacturer's Rebate)} & \text{\%)} & \text{Amount)} \end{array}$ <p>Leasing Company Y's taxable sales price is \$1,611.20.</p> <hr/> <p>Monthly Lease Payment:</p> $\begin{array}{rcl} \$444.44 & \times & 91.7\% = \$407.55 \\ \text{(Monthly Payment)} & \text{(Taxable \% } & \text{(Taxable} \\ & \text{for Collection)} & \end{array}$ <p>Leasing Company Y should collect tax on \$407.55.</p> $\begin{array}{rcl} \$444.44 & \times & 80.56\% = \$358.04 \\ \text{(Monthly Payment)} & \text{(Taxable \%)} & \text{(Taxable)} \end{array}$ <p>Leasing Company Y's taxable sales price is \$358.04.</p>
--	---

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

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).

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

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

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

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 ($\$12,000 \div 36$).
- **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 \div $\$14,000$ 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) \times 89.3% taxable percentage).
 - Each lease payment:** \$297.66 ($\333.33 payment \times 89.3% taxable percentage).

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

Total Amount Paid to Leasing Co Y	
Sales Price of Replacement Vehicle	\$20,000
Additions:	
Lease Acquisition Fee	\$500
Credit Insurance	\$1,500
<u>Rent Charge</u>	<u>\$4,000</u>
Total Additions	\$6,000
Subtractions:	
Positive Equity	\$2,000
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
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
<u>Rent Charge</u>	<u>\$4,000</u>
Total Additions	\$4,500
Subtractions:	
Discount Allowed for Positive Equity	\$2,000
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
Total Subtractions	(\$12,000)
Total Taxable Sales Price	\$12,500
Taxable Percentage:	
<u>Total Taxable Sales Price</u>	<u>\$12,500</u> = 89.3%
Total Amount Received	\$14,000
Payment at Lease Signing:	
\$2,000	x 89.3% = \$1,786
(Cash Down Payment & Manufacturer's Rebate)	(Taxable %) (Taxable Amount)
Monthly Lease Payment:	
\$333.33	x 89.3% = \$297.66
(Monthly Payment)	(Taxable %) (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).

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

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 ($\$16,000 \div 36$).
- **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 \div $\$18,000$ 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).

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

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
<u>Negative Equity</u>	<u>\$2,000</u>
Total Additions	\$8,000
Subtractions:	
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
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
<u>Negative Equity</u>	<u>\$2,000</u>
Total Additions	\$6,500
Subtractions:	
<u>Residual Value of Vehicle</u>	<u>\$10,000</u>
Total Subtractions	(\$10,000)
Total Taxable Sales Price	\$16,500
Taxable Percentage:	
<u>Total Taxable Sales Price</u>	<u>= \$16,500 = 91.7%</u>
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).