

**Automobile Dealers Association of Alabama, Inc.**

# **ALABAMA VEHICLE LEASE TAX GUIDE**

by

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# Vehicle Leasing Tax Calculations and Payments

## How much is owed and who pays the bill?

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In this article, we will review several lease tax examples to clarify the answers to some often asked questions. The information in this paper was approved by the Alabama Department of Revenue - Sales, Use and Business Tax Division. Note that the city and county rates used in the following examples are subject to change. The enclosed rate chart is available on the Department of Revenue's website ([www.ador.state.al.us/salestax](http://www.ador.state.al.us/salestax)) and all rates should be confirmed before using.

### I. Introduction:

The State of Alabama levies a 1.5% tax on the gross proceeds derived from the leasing or rental of automotive vehicles, truck trailers, semi-trailers, and house trailers. Individual cities and counties may also tax automotive rental and lease proceeds. These state, city and county taxes on vehicle leases are considered rental and leasing taxes, not sales taxes. The Sales, Use and Business Tax Division administers the 1.5% state tax. City and/or County rental taxes can be administered either by the Sales, Use and Business Tax Division of the Department of Revenue, self-administered by the city or county, or by a private company acting as agent for the locality.

Question: What are the taxable gross proceeds from a vehicle lease?

Answer: The following example is shown for illustration:

<i>Taxable Gross Proceeds on Lease</i>	
<i>Vehicle Invoice Amount</i>	<i>\$18,386.0</i>
	<i>0</i>
<i>+ Markup</i>	<i>1,500.00</i>
<i>+ Sealant Package</i>	<i>200.00</i>
<i>+ Non-Refundable Security Deposit</i>	<i>2,000.00</i>
<i>= Taxable Gross Proceeds</i>	<i>\$22,086.0</i>
	<i>0</i>

In this example, the State of Alabama would be due a 1.5% tax on \$22,086.00 payable when the lease proceeds are received. If individual cities and counties levy a rental/leasing tax, these taxes would also be payable when the lease proceeds are received.

Question: Who is responsible for paying these city/county/state rental/leasing taxes here in Alabama?

Answer: In Alabama, rental/leasing taxes are levied against the lessor (dealership or leasing company) and are not a consumer tax. Therefore, if these taxes are passed on to the

lessee (customer) as a tax or additional cost of the lease, this additional amount is to be included as a part of the gross proceeds from the lease. In other words, a tax on taxes collected from the leasing customer by the dealership or leasing company.

**II. Rental/leasing taxes paid by the dealership: What are the dealership's taxable proceeds on lease trade-in vehicles and cash down (capitalized cost reductions) on lease contract?**

This guideline is applicable when the dealership writes up the lease in its name, receives the down payment (cap cost reduction) and then sells or assigns the lease to a leasing company. However, if the dealership is acting as agent of the leasing company, the leasing company is liable for all rental taxes due on the transaction including rental tax on the cap cost reduction.

Lease contracts generally have a separate Lease Information section summarizing the lease agreement details. A typical example of this section is shown below in Figure 1, showing \$2,000 in Cap Cost Reductions.

Figure 1. Lease Information Section

(a) Capitalized Cost		\$	2,000
(b) Capitalized Cost Reductions (2a)+(2b)+(2c)	-	\$	
(c) Net Capitalized Cost	=	\$	
(d) Lease End residual Value	-	\$	
(e) Lease Depreciation	=	\$	
(f) Lease Charges	+	\$	
(g) Total of Base Monthly Payment	=	\$	
(h) Lease Term	÷		Months
(i) Base Monthly Payment	=	\$	

Capitalized cost reductions are considered taxable lease proceeds received by the leasing dealership. These total lease cost reductions are typically detailed in the Payment Due at Lease Signing section of the lease contract. The first three lines of this section are shown below in Figure 2 showing a \$2,000 net vehicle trade-in allowance with no cash down or rebates.

Figure 2. Partial Payment Due at Lease Signing Section

(a) Cash	\$	N/A
(b) Net Trade-in Allowance	\$	2,000
(c) Rebates	\$	N/A

Question: Is the net trade-in allowance taxable in a lease?

Answer: Yes, the rental tax law has no provision for a deduction for a trade-in on a lease. Tax is due on the gross receipts of the lease which would include any amount allowed for the trade-in. The net amount (vehicle ACV less any lien payoff) allowed for the trade-in constitutes gross receipts derived from the lease. Dealership records should

clearly indicate the lien pay-off by the dealership and the net trade-in allowance calculation. To answer the question, let's use a common example. A customer wants to trade in their current vehicle for a new vehicle they intend to lease. The trade-in vehicle's value will be used to reduce the monthly lease payment (Cap Cost Reduction). Assume the trade-in vehicle is appraised at \$8,000 and the customer still owes the lienholder (GMAC) \$6,000 on the vehicle.

The net vehicle trade-in allowance	
Trade-in Vehicle Actual Cash Value	\$ 8,000
- Lien pay-off on vehicle	- 6,000
= Net trade-in value	\$ 2,000

State of Alabama Rental/Leasing Tax Calculation: Dealership state tax (1.5%) due on lease trade-in vehicle proceeds	
Net Trade-in allowance proceeds	\$ 2,000
x 1.5% state rental tax on lessor proceeds	x 1.5%
= State of Alabama rental tax due from dealership	\$ 30.00

Note: This tax calculation would be the same on a \$2,000 cash down-payment (lease cap cost reduction). County or city rental/leasing taxes may also be calculated on this same \$2,000 net in allowance.

Question: Can the dealership collect the \$30.00 State of Alabama rental/leasing tax on the net trade-in from the customer as part of the lease acquisition cost?

Answer: Yes, but the state will consider this \$30.00 as additional taxable lease proceeds to the dealership because the rental/leasing proceeds tax is a lessor tax, not a consumer (lessee) tax. The dealership will pay tax on taxes collected from their customers.

Tax on taxes collected by the dealership!  
If lessor collects lessor taxes from lessee, lessor tax basis goes up.  
State of Alabama (1.5%) rental tax calculation

Net trade-in vehicle proceeds on lease - taxable	\$2,000.00
+ Rental taxes collected from customer - taxable	+ 30.00
= total taxable proceeds from up-front payments to dealership	2,030.00
x 1.5% state rental tax	x 1.5%
= Increased rental/leasing tax due from dealership to State of Alabama	\$ 30.45

Note: These taxable proceeds of \$2,030 would be reported on the State of Alabama Rental Tax Return prepared by the dealership, not on the sales tax return.

Question: Are city and county rental taxes on up-front cash down and vehicle trade-in proceeds calculated, reported and paid the same way?

Answer: Yes, assuming that city and county tax authorities have adopted the same tax code.