Information Bulletin
Chicago Personal Property Lease Transaction Tax/Down Payments and Trade-In Allowances

To: Registered Lessor

In April 1996 the Chicago Department of Revenue issued the Informational Bulletin, Volume 1 Number 1 addressing Common Lease Transaction Tax Issues for Vehicle Leasing Companies. There was some confusion about the taxability of down payments and trade-in allowances. The purpose of this informational bulletin is to further clarify the application of the Chicago Personal Property Lease Transaction Tax to down payments and trade-in allowances on long term vehicle leases.

General Information

The Chicago Personal Property Lease Transaction Tax ordinance imposes a 6% tax on (1) the lease or rental in the city of personal property or (2) the privilege of using in the city personal property that is leased or rented outside the city (3-32-030(A)).

Down payments and trade-in allowances are considered part of the "lease price" or "rental price"; therefore, under certain circumstances they are subject to the Chicago Personal Property Lease Transaction Tax. The portion of a down payment or trade-in allowance which is taxable depends on the number of months taxable under the Chicago Personal Property Lease Transaction Tax. The taxability of the monthly lease payment depends on where the lease transaction occurs and where the vehicle is used.

Are down payments and trade-in allowances taxable if the vehicle is leased in the city?

Yes, down payments and trade-in allowances are taxable for leases which are entered into in the city. The portion of the down payment or trade-in allowance which is taxable depends on the location of the use of the vehicle. If the vehicle is:

- Used In the City
  The tax would apply to the entire amount of the down payment and trade-in allowance. In the case of personal property such as a motor vehicle, the garaging, storing or keeping of the property constitutes a use. To determine the location of a vehicle's use, lessors should consult insurance documents which show where the vehicle is domiciled or garaged. (Transaction Tax Ruling #12)
- Used Outside the City
  The tax would apply only to a fraction of the down payment and trade-in allowance. A lease payment is not considered taxable for any rental period in which the vehicle is used solely outside the city. However, the tax is due for the lease payment and for the portion of the down payment and trade-in value for the period in which the lessee takes possession or delivery of the vehicle at a location within the city.

Example: A customer leases a vehicle from a leasing company located in Chicago. The lease has a 36-month lease term. The customer garages the vehicle in Oak Brook. The customer made a down payment of $1,000 and had a trade-in with the value of $1,000.
The first month of the lease would be considered taxable because the lessee took possession of the vehicle at a location within the city; therefore, 1/36 (1 taxable monthly lease payment out of a 36-month lease) of the down payment and 1/36 of the trade-in value would be considered taxable. The taxable down payment and trade-in amount would be $2,000 ($1,000 down payment + $1,000 trade-in value) * 1/36 = $55.55. The tax due on the down payment and the trade-in would be $55.55 * 6% = $3.33.

Are down payments and trade-in allowances taxable if the vehicle is leased outside the city?

The taxability of down payments or trade-in allowances for leases which are entered into outside the city depends on the location of the use of the vehicle. If the vehicle is:

- Used In the City
  The tax would apply to the entire amount of the down payment and trade-in allowance.
- Used Outside the City
  The tax would not apply to the down payment or trade-in allowance when a lessee enters into a lease agreement outside the city and will garage the vehicle outside the city throughout the entire lease period. However, the lessor should start collecting the tax and should collect the taxable portion of the down payment and trade-in value when the individual starts garaging the vehicle in the city during the lease period.

Are the down payments and trade-in allowances taxable if a lessee moves into or out of the city during the period of the lease agreement?

Yes, the tax applies to the fraction of the down payment and trade-in allowance which the property is used in the city.

Example: A customer leases a vehicle from a leasing company located in Oak Brook. The lease has a 36-month lease term. The customer garages the vehicle in Oak Brook for 10 months then garages the vehicle in Chicago for the remainder of the lease. The customer made a down payment of $1,000 and traded in a vehicle having a value of $1,000. At the time the vehicle is used in the city the lease becomes taxable and 26/36 (26 taxable monthly lease payments out of a 36-month lease) of the down payment and 26/36 of the trade in value would be subject to the tax. The taxable down payment and trade-in amount would be $2,000 * 26/36 = $1,444.45 and the tax due on the down payment and trade-in would be $1,444.45 * 6% = $86.66.

Questions?

If you have questions or need more information, please write us. Our address is:

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