Sales Tax Guidelines: How Kansas Motor Vehicle Dealers and Leasing Companies Should Charge Sales Tax on Leases

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Department of Revenue guidelines are intended to help you become more familiar with Kansas tax laws and your rights and responsibilities under them. While every attempt is made to provide you with information that is consistent with the Kansas tax laws, nothing in this publication supersedes, alters, or otherwise changes Kansas case law or any Kansas statute or regulation. Department guidelines are not legal rulings and any information that is inconsistent with Kansas law is not binding on either the department or the taxpayer. Not every potential tax situation is covered in these guidelines. If you have any questions about how Kansas sales and use tax laws apply to your business, please visit the department's Policy Information Library on our web site, www.ksrevenue.gov, or call the department's Taxpayer Assistance Center at 1-785-368-8222.

Application of this publication. Kansas law requires anyone who sells five or more vehicles during a calendar year to obtain a Kansas vehicle dealer license and register to collect sales tax on their motor vehicle sales. This publication explains how registered dealers and leasing companies should bill sales tax to their customers on taxable leases, and how they should report the tax on their sales tax returns. It does not contain detailed discussions of exemptions, sourcing, taxation of repair services and parts sales, the Kansas vehicle-rental excise tax, or other things that are important to a dealer’s sales tax accounting and reporting. In addition, capital leases are not discussed here because virtually all leases that dealers and non-business consumers enter into are operating leases. When the word "lease" is used in this publication, the discussion will only apply to operating leases, which are also called "true leases."

Because of its limited scope, this publication should be read along with the other department publications that discuss taxation of motor vehicle sales and leases. These include Publication KS-1526, Sales and Use Tax for Motor Vehicle Transactions, Publication EDU-31A, Sales Tax Guidelines: How Kansas Motor Vehicle Dealers Should Charge Sales Tax on Vehicle Sales, Publication KS-1510, Kansas Sales and Compensating Use Tax, Publication KS-1520, Kansas Exemption Certificates; Notice 09-05, Manufacturer's rebate on the purchase or lease of new
motor vehicles; and Notice 09-10, Cash for Clunkers a/k/a Car Allowance Rebate System (CARS).

I. VEHICLE LEASES

(a) Recent changes in sales taxation of motor vehicle sales and leases. (1) Manufacturer's rebates are now subject to tax. From July 1, 2006 through June 30, 2009, K.S.A. 2008 Supp. 79-3602(ll)(3)(E) excluded manufacturer's rebates from the tax base for the sale or lease of a new motor vehicle if the rebate was assigned to the dealer during the purchase or lease negotiations. This provision effectively exempted the rebate payment to the dealer.

The 2009 Kansas legislature did not renew this provision. This means that beginning July 1, 2009, a manufacturer's rebate that is assigned to a dealer no longer reduces the amount of sales tax that the dealer charges and the customer pays on the purchase or lease of a new vehicle. See Notice 09-05.

(2) Late payment and penalty charges for delinquent lease payments are considered to be part of a customer's charges for a leased vehicle and are subject to sales tax. A charge to a customer for the late payment of a motor-vehicle lease installment is subject to sales tax. An earlier version of this information guide incorrectly stated that a late payment or penalty charge that is billed to a lessee is not subject to Kansas sales tax.

(3) The statute of limitations for sales tax refunds is now one year. 2009 HB 2365 shortened the statute of limitations for sales and use tax refunds from three years to one year. Notice 09-07 explains how the department will implement this change.

(4) Dealers should follow K.S.A. 79-3674 when claiming a bad debt deduction. K.S.A. 79-3674 codifies how bad debts deductions may be claimed by retailers, including motor vehicle dealers. The department is in the process of adopting a new administrative regulation for bad debt deductions. The one-year statute of limitations for refund claims also applies to bad debt deduction claims.

(5) Cash for clunkers. Recent Federal legislation provides a guaranteed trade-in allowance of $3,500 or $4,500 when certain qualifying motor vehicles are traded-in on the purchase of certain qualifying new motor vehicles between July 1, 2009 and November 1, 2009. A Federal guaranteed trade-in allowance that is paid to a dealer will be treated in the same way as any other trade-in allowance, provided the requirements contained in the Federal legislation are met. The department's requirements for a trade-in allowance are discussed below in Section I (o), Trade in Allowance. How trade-in allowances are treated on sale tax returns is discussed in EDU-31A, Reporting trade-in allowances on returns. The department's implementation of the "Cash for Clunkers" program is discussed in more detail in Notice 09-10. Additional information on the Federal program can be found at: www.cars.gov.

(6) Colorado dealers. Colorado retailers, including Colorado motor vehicle dealers, will no longer receive a discount for the Kansas retailers' use tax they collect and remit on sales and leases. See Notice 09-08.
(b) General lease principles. Under a lease, the customer ("lessee") gains use of the leased vehicle for an agreed upon period, while the leasing company ("lessor") retains most or all of the risk and rewards of ownership. Kansas sales tax law treats a lease as a series of recurring sales to the lessee, with each installment being treated as a separate sales transaction that is subject to sales tax. Sales tax is required to be charged on each installment, unless the entire lease price is paid up front in single payment. If a lease is paid in installments, the customer may not elect to pay all of the taxes up front in one payment.

Most lease charges that are billed to the customer are taxable. This includes some itemized charges that would not be taxed if the vehicle were sold instead of being leased. These different tax treatments result from the leasing company's ownership of the vehicle. As the owner, the leasing company is legally obligated to pay the title and registration fees and the property taxes. These are costs that the leasing company recovers by raising the amount that it charges to the lessee. Accordingly, any title and registration fee or property tax that a leasing company recovers from the lessee are taxed under an operating lease whether they are lumped together with other charges or billed to the lessee as separately itemized amounts. K.S.A 2008 Supp. 79-3602(ll). These taxes and fees are not taxed when a person buys a vehicle outright.

While uncommon, lease terms occasionally require the lessee to pay the annual registration fee and property tax directly to the county treasurer. When a lease contains these payment requirements, the lessee's payments to the county treasurer are not taxed. How sales tax is computed on lease installments is discussed in more detail below in Section II, Determining Taxable and Non-Taxable Lease Charges.

Under an operating lease, the dealer’s receipt of an up-front capital reduction payment or periodic installment payment must be sourced to the “primary property location” of the vehicle. This location is the address where the vehicle will be registered and should be the same customer address that the dealer captures in its records that document the lease transaction. See Notice 03-04. This sourcing rule is different from the previous one, which required any capital reduction payments and installment payments that were received by a dealer to be sourced to the dealership’s location.

(c) Relationship between dealers and leasing companies. In most motor vehicle leasing transactions, the motor vehicle dealer and customer negotiate the terms of the lease and execute the lease agreement. The dealer is responsible for calculating the sales tax due on the installment payments and on any down payment. The dealer will then assign the lease contract, and transfer title to the leased vehicle, to the leasing company.

Under this type of arrangement, the lessee generally pays the dealer: (1) the down payment that was agreed to during negotiations; and (2) the first month’s installment payment. The dealer is responsible for collecting and remitting sales tax on the taxable portion of these receipts. The leasing company is responsible for collecting tax on the taxable portion of the rest of the installment payments, and on any additional charges that are billed to the lessee such as charges for excess mileage and early termination fees.

From a sales tax perspective, there are two separate but related transactions that take place. One is the lease agreement that is entered into with the lessee, which the dealer assigns to the leasing company. The other is the dealer’s transfer of the vehicle title to the leasing company. For
Kansas sales tax purposes, this title transfer is treated as a sale for resale and is exempt from tax if the leasing company has given a resale exemption certificate to the dealer.

II. DETERMINING WHICH CHARGES ARE TAXABLE

(a) Capitalized-cost reductions: Down payments, trade-in allowances, and manufacturer’s rebates. Lease contracts may provide for any or all of the following: a trade-in allowance; a manufacturer’s rebate that is assigned to the dealer; and a down payment that the lessee pays to the dealer. These up-front payments and allowances are called "capitalized-cost reductions" because they reduce the capitalized (amortized) amount that the lessee will pay off in installments. Except for trade-in allowances, capitalized-cost reduction payments are taxable.

A trade-in allowance reduces the amount of tax that the dealer charges and the lessee pays under the lease agreement, provided the requirements for a trade-in allowance are met. These requirements are explained in EDU-31A, Subsection II(o), Trade-in allowance, and are the same for both leases and purchases. If a trade-in does not satisfy the requirements for a trade-in allowance, the amount credited for the trade-in is treated as a taxable payment to the dealer. How trade-in allowances are reported on returns is explained in EDU-31A, Reporting trade-in allowances on returns.

Up-front payments and manufacturers' rebates assigned to the dealer are capitalized-cost reductions that reduce the amount that the lessee pays in installments. Unlike trade-in amounts, these amounts are taxable and do not reduce the amount of tax that the dealer charges and the lessee pays under the lease agreement. A dealer is required to charge and collect sales tax on all up-front payments, manufacturers' rebates', and installment payment that it receives.

(b) Taxable and nontaxable line-item amounts. As was discussed in Section I(b), General lease principals, most lease charges billed to the lessee are taxable. This includes itemized finance charges, interest charges, carrying charges, service charges, collision damage waiver fees, charges for service contracts and maintenance agreements, delivery charges, pickup charges, handling charges, charges for accessories, administrative charges, charges to recover state and federal taxes owed by the dealer, manufacturer, or importer, and most other charges and expenses.

These charges are expenses incurred by the leasing company to lease the vehicle and are taxed when billed to a lessee regardless of whether the charges are: (1) lumped together with other charges on the customer’s invoice; (2) billed as separate line-item charges on the customer’s invoice; or (3) billed under separate contracts, with one contract for the vehicle lease and one or more others for these charges. Subsection II(c), Summary, below, provides a more detailed discussion about how these different charges are treated.

A few of the charges that are paid for under an operating lease should not be taxed. These are:

(1) An insurance charge, if: (A) the charge is itemized on the lease contract; (B) the charge is for the purchase of insurance from an insurance company; (C) the lessee has the option of buying the insurance or procuring other coverage; and (D) the lessee is the policy beneficiary; and
(2) any portion of a trade-in allowance that the dealer adds back to the customer charges to recover the lien-payoff amount that the dealer made to extinguish a lien on the trade-in, provided the lien payoff amount is clearly reflected in the lease agreement and in the dealer's records.

The lien-payoff amount on a trade-in refers to a dealer's acceptance of a trade-in that is credited toward the vehicle being leased, followed by the dealer's payoff of a lien on the title of the trade-in. The amount of the dealer's lien payoff on the trade-in is not subject to sales tax, if the lien payoff is clearly reflected in the lease agreement and the dealer's records. In the past, lien pay-off amounts were required to be added to the cost of the lease. The lien-payoff is now treated as the payment of a non-taxable financing charge. See K.S.A. 2008 Supp. 79-3602(ll)(2)(B).

When a dealer pays off a lien on a trade-in in this fashion, the dealer should deduct the full trade-in allowance from the lease price without any reduction for the amount that the dealer paid to extinguish the lien. This discussion does not apply when a lessee surrenders a leased vehicle that it has not purchased and taken title to.

(c) **Summary.** The following summary explains whether the amounts or credits that are shown on a lease agreement as separately-stated line-item amounts are taxable or exempt. When taxable and non-taxable amounts are lumped together, the total amount is taxable.

- **Administrative service fees - Taxable.** Administrative service fees are charges that dealers make to recover their administrative costs, which can include but not are limited to: (1) processing trade-ins, including tracking lost or faulty titles and obtaining out-of-state or lender-held titles; (2) assisting the customer to secure credits that are due on trade-ins; (3) assisting the customer to secure a manufacturers rebate; (4) developing alternate payment choices for the customer; (5) obtaining credit reports; and (6) creating and maintaining customer records. These different costs are often lumped together and billed to the lessee as single, separately-stated charge on the lease contract. These charges are subject to sales tax.

- **Bad check fees - Not taxable.** Sales tax should not be charged on these charges.

- **Disposition fees - Taxable.** Disposition fees or disposal fees are charged by a lessor to defray the cost of preparing and selling the leased vehicle at the end of the lease, if the lessee does not exercise its buy-out option.

- **Down payments - Taxable.** A down payment is part of the total lease price and is subject to tax even though it reduces the capitalized amount.

- **Early termination fee - Taxable.** The amount of an early termination fee is agreed upon when the parties enter into the lease agreement. This fee will only be paid if the lessee terminates the lease before the end of the lease term fixed in the lease agreement.

- **Excess mileage, damage charges - Taxable.** Any liability incurred by the lessee during the lease term arising under excess mileage, damage, late fees, or similar clauses in the lease agreement is subject to sales tax. Taxable fees do not include charges to a lessee or other customer for bad checks.
• **Extended warranties and service contracts - Taxable.** When a lease agreement provides for an extended warranty or service contract, the amount charged for the warranty or service contract is taxable. The requirements for extended warranties and service contracts that apply to vehicle sales also apply to vehicle leases. *See EDU-31A, Subsection II(c), Extended warranties and service contracts.*

• **Installment payments - Taxable.** Installment payments reimburse the lessor for the leased vehicle are taxable. This includes any installment payments that are received by the dealer. Installment payments may be in addition to other taxable payments made to the dealer or lessor, such as upfront payments or late payment charges.

• **Insurance charges – Taxable unless:** (i) the charge is itemized on the lease contract; (ii) the charge is for the purchase of insurance from an insurance company; (iii) the lessee has the option of buying the insurance or procuring other coverage; and (iv) the lessee is the real beneficiary of the policy.

• **Interest charges – Taxable.** Interest is the cost to carry the amount capitalized under the lease and is taxable.

• **Late payment and penalty charges - Taxable.** Late payment fees and penalty charges charged under a lease agreement are subject to Kansas sales tax. Bad check charges are not taxable.

• **Lien-payoff amounts on trade-ins – Not taxable.** A lien-payoff amount is the total unpaid balance that an owner owes to a financing company on a vehicle. When a vehicle purchase is financed, sales tax is due and payable when the sale is made and the purchaser takes possession. Sales tax is not owed on installments that the owner later pays to a financing institution to satisfy a purchase money loan. *See EDU-31A, Section II(f), Finance and interest charges.* When a dealer pays off a lien on a vehicle taken in trade, the dealer should treat the payment as satisfying non-taxable financing charges, and therefore not subject to tax. The lien-payoff amount may be excluded from the tax base if the lease contract and dealer's records show the amount was used to payoff a lien on a vehicle taken as a trade-in on the lease.

• **Manufacturer’s rebate – Taxable.** On an after July 1, 2009, a manufacturer’s rebate that is payable to the lessee and assigned to the dealer is treated as a taxable payment to the dealer. An assigned manufacturer's rebate no longer reduces the selling price of a leased vehicle or the amount of sales tax that the lessee pays on the lease transaction. *See Notice 09-05.*

• **Property taxes - Taxable,** unless the lease agreement requires the lessee to pay the property tax directly county treasurer. Lease agreements vary. Leasing contracts occasionally require the lessee to pay property taxes directly to the county treasurer. When a lease agreement requires the lessee to pay property taxes directly to the county treasurer, the property tax paid by the lessee is not subject to sales tax.

Far more often, the lease agreement provides that: (1) the lessor -- as the vehicle owner -- will pay the property taxes to the county treasurer; and (2) the lessee will reimburse the lessor for the taxes paid. When a lease agreement contains this type of provision, the lessee is required to pay sales tax on the property-tax amount that is charged by the lessor
even when the invoice lists the property tax amount as a line-item charge for property
tax. This amount is subject to sales tax because the lessor, as the vehicle's owner, is
recovering one of its expenses from the lessee. The leasing company's property tax
payment to the county treasurer is not taxed. Taxable amounts include any prorated
property taxes that the lessor collects from the lessee at the inception of the lease. See
Section I (b), General lease principles.

- **Purchase options - Taxable.** The exercise of a purchase option as a lease buyout is
  subject to sales tax.

- **Residual - Non-taxable,** unless paid at the end of the lease to buy the vehicle. A residual
  is the estimated value of the leased property at the end of lease term and is not taxable.
  This amount is documented on the lease agreement when the lease is drawn up. If a
  lessee pays the residual at the end of the lease to buy the vehicle, sales tax is owed on the
  residual and any additional amount that the lessee pays, such as an excess mileage or
damage charge.

- **Security deposits - Not taxable,** unless retained as a payment. While a security deposit
  is not taxed at the inception of the lease, any portion of a security deposit that is retained
  by the lessor or dealer is taxable when forfeited by the lessee.

- **Title and registration fees - Taxable,** unless the lease agreement specifies that the
  lessee is responsible for registering the vehicle and paying the registration fees to the
  county treasurer. Title and registration fees are treated in the same was as property taxes.
  See discussion of Property taxes, above; Section I (b), General lease principles.

- **Trade-in amounts - Not taxable.** The value of a vehicle that is owned by the customer
  and taken as a in trade on a vehicle being leased reduces the amount that the lessee pays
  for the vehicle being leased, provided the trade-in satisfies the requirements for a trade-in
  allowance discussed in EDU-31A, Section II(o), Trade-in allowances. A trade-in
  allowance is not allowed when a leased vehicle is surrendered to a dealer as part of the
  sale or lease of another motor vehicle.

(d) **Sourcing a dealer's receipts.** Previously, taxable payments received by a dealer were
required to be sourced to the location of the dealership. This has changed. Now, the up-front
capital reduction payments and all lease installment payments must be sourced to the “primary
property location” of the vehicle. Notice 03-05. This is the address where the vehicle will be
registered and should be the same address that the dealer captures in its records that document
the lease transaction. Notice 03-04. This new sourcing requirement applies to dealers and lessors
and to all operating leases, whether the lease is paid off in a single lump-sum amount paid up
front or in installments paid over the term of the lease. While the primary property location
changes if the lessee moves, it is not changed by lessee’s use of the vehicle in other states or at
different locations in Kansas.

**III. COMMON LEASE TERMS**

(a) **Adjusted or net capitalized cost or net cap cost** means the gross capitalized cost minus
capitalized-cost reductions, such as a down payment, net trade-in allowance, and manufacturer's
rebate that is assigned to the dealer. The net cap cost is the amount used by the lessor to calculate the base installment payments under the lease agreement.

(b) **Capitalized-cost reduction** means the sum of any down payment, net trade-in allowance, and manufacturers rebate that has been assigned to the dealer that are used to reduce the amount that the lessee pays in lease installments. To be treated as capital cost reductions, trade-in allowances must satisfy the requirements discussed below. While payments, trade-ins, and rebates may or may not be subject to sales tax, they are all treated as capitalized-cost reductions.

(c) **Depreciation fee** is the portion of a monthly lease payment that reimburses the leasing company for the loss in the value of the vehicle, spread out over the term of the lease, based on the anticipated number of miles that the vehicle will be driven and the time that the vehicle will be kept. It is calculated as follows: Depreciation fee equals Net Cap cost minus Residual divided by the term of the lease.

(d) **Finance fee** is the portion of a monthly lease payment that reimburses the leasing company for the use of their money. Finance fee equals Net Cap cost plus Residual times the money factor.

(e) **Gross capitalized cost or gross cap cost** means the amount agreed upon by the dealer and lessee as the value of the motor vehicle plus any items that are capitalized or amortized during the lease term, including but not limited to: property taxes; taxable insurance; service agreements; registration fees; license fees; lease acquisition and administration fees; warranty charges; fees and charges for accessories and their installation; charges for delivery, service and repair; charges for improving the motor vehicle and providing other services incidental to the agreement; the outstanding balance of a prior loan agreement, lease, or motor vehicle retail installment contract; and the unpaid portion of any early termination obligation under an outstanding lease agreement. The gross cap cost is not reduced by any capitalized-cost reductions, such as a down payment or trade in amount.

(f) **Manufacturer's rebate**, for purpose of a vehicle lease, means the right to a payment that a manufacturer extends to the lessee for the lease of one of its products. Effective July 1, 2009, all manufacturers' rebates for new motor vehicles that are leased in Kansas are subject to Kansas tax as part of the lease payments. A manufacturer's rebate that is assigned to a dealer is treated and taxed in the same way a down payment that a lessee makes at the inception of a lease.

(g) **Money factor** means the rate charged under the leasing contract for the time value of money, whether called interest or not. The money factor is always slightly lower than the interest rate percentage divided by 2400.

(h) **Residual** is the value of the leased motor vehicle at the end of the lease term. The amount of the residual is fixed during the lease negotiations and is stated in the lease agreement. The residual is not taxed up front by the dealer. However, if the lessee buys the vehicle at the end of the lease for the residual amount, that amount is taxable. If additional charges are added to the residual amount at the end of the lease, such as for excess mileage, sale tax applies to the residual amount and the added charges.
(i) **Trade-in allowance** means the value assigned by a dealer to a used vehicle taken in trade from a customer to reduce the lease price of another vehicle. The requirements for a trade-in allowance on a lease are the same requirements that apply when a vehicle is purchased. See EDU-31A, Subsection II(o), *Trade-in allowance*. Lien-payoff amounts do not reduce the trade-in allowance that may be taken.

### IV. EXAMPLES

**Example A. New Vehicle Lease - Customer Trades in Vehicle Titled in its Name; Dealer completes lease papers.** [T = Tax to be collected by dealer]

1. Gross capitalized cost $33,000
2. Residual value of vehicle at end of lease $10,000
3. Interest on Residual $1,024
4. Trade-in value of vehicle owned by lessee $6,000
5. Customer's loan balance on trade-in ($3,000)
6. Cash down payment from customer $5,500 (T)
7. Total amount applied as a capital cost reductions $11,500
8. First month lease payment paid to dealer $400 (T)
9. Dealer receipts subject to sales tax at lease’s inception [6+8] $5,900 (T)

In Example A, the dealer’s taxable receipts total $5,900. This is the sum of the down payment (6) and the first month’s installment payment (8). The dealer must charge and remit sales tax on $5,900 based on the primary property location of the vehicle being leased. The primary property location is the registered address for the vehicle. See Notice 03-04.

For Example A, the leasing company starting point for determining the monthly lease installment payments is the gross capitalized cost. In this case, the gross capitalized cost includes the agreed on value of the vehicle plus registration fees, license fees, accessories, property taxes, insurance, acquisition and administrative fees, delivery charges, leasing company fees, the customer's loan balance on trade-in that was paid off, and an extended warranty. Next, the leasing company will need to determine the capital cost reductions. In this case, this is the sum of the trade-in and the down payment. (4 + 6 = $11,500). The net cap cost is the gross cap cost less the capital cost reductions. ($33,000 - $11,500). Here, the gross cap cost less the capital cost reductions yields a net capitalized cost of $21,500 (1 minus 7).

The net capitalized cost is the amount that is amortized by the leasing company to arrive at the lessee’s monthly installment payments. This is done by adding the depreciation fee to the finance fee. [Depreciation Fee = (Net Cap Cost – Residual) / Term]; [Finance Fee = (Net Cap
Cost + Residual) X Money Factor]. Because the dealer's pay-off of the loan balance ($3,000) is being financed but is not subject to sales tax, the lessee’s taxable installment payments will be based on $18,500 rather than on the $21,500 which is the net capitalized cost. The lease papers shall clearly state the percentage of the total installment charge that is subject to sales tax.

**Example B. New Vehicle Lease - Customer Trades in Vehicle Titled in its Name and receives a Manufacturer's Rebate that it assigns to dealer.** [T = Tax to be collected by dealer]

1. Gross capitalized cost $30,000
2. Trade-in value of vehicle owned by lessee $15,000
3. Customer's loan balance on trade-in ($10,000)
4. Equity in owned vehicle $5,000
5. Cash down payment from customer $1,500 (T)
6. Manufacturer rebate assigned to dealer $2,000 (T)
7. Total capital cost reduction $18,500
8. First month lease payment to dealer $400 (T)
9. Dealer receipts subject to sales tax at lease’s inception [5 + 6 + 8] $3,900 (T)

In Example B, the dealer must collect and remit sales tax on $3,900 (5 + 6 + 8) for its receipts from the lease of the new vehicle. The dealer must collect and remit the tax owed based on the primary property location of the vehicle being leased. The $2,000 manufacturer’s rebate assigned and paid to the dealer is subject to Kansas tax on and after July 1, 2009.

For Example B, the leasing company’s starting point for determining the monthly lease installment payments is the gross capitalized cost. In this case, the gross capitalized cost includes the agreed on value of the vehicle plus registration fees, license fees, property taxes, acquisition and administrative fees, preparation charges, leasing company fees, and the customer's loan balance on the trade-in that was paid off. The gross capitalized cost is then reduced by the total capital cost reductions, (the sum of the trade-in value, the assigned manufacturer’s rebate, and the cash payment), in this case $18,500 (2 + 6 + 5). This yields a net capitalized cost of $11,500 ($30,000 - $18,500). This amount is then amortized to determine lessee’s monthly installment payments, which are taxable.

This is done by adding the depreciation fee to the finance fee. [Depreciation Fee = (Net Cap Cost – Residual) ÷ Term]; [Finance Fee = (Net Cap Cost + Residual) x Money Factor]. Because the dealer's pay-off of the loan balance ($3,000) is being financed but is not subject to sales tax, the lessee’s taxable installment payments will be based on $15,500 rather than on the $18,500 which is the net capitalized cost. The lease papers shall clearly state the percentage of the total installment charge that is subject to sales tax.
Example C.  *New Vehicle Lease* --Customer Trades in Leased Vehicle it does not own at the end of lease term.  [T = Tax to be collected by dealer]

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>1.</td>
<td>Gross capitalized cost</td>
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<tr>
<td>2.</td>
<td>Residual value of vehicle at end of lease</td>
<td>$10,000</td>
</tr>
<tr>
<td>3.</td>
<td>Interest on residual</td>
<td>$1,024</td>
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<tr>
<td>4.</td>
<td>Down payment from customer</td>
<td>$3,000 (T)</td>
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<tr>
<td>5.</td>
<td>Manufacturer's Rebate assigned to dealer</td>
<td>$2,000 (T)</td>
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<tr>
<td>6.</td>
<td>Total capital cost reductions [4+5]</td>
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<tr>
<td>7.</td>
<td>Value of lessee’s leased vehicle</td>
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<tr>
<td>8.</td>
<td>Lessee's optional buy out amount</td>
<td>($10,000)</td>
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<td>9.</td>
<td>Dealer credit to lessee from dealer's purchase of lessee's leased auto [7–8]</td>
<td>$2,000 (T)</td>
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<td>10.</td>
<td>First month lease payment</td>
<td>$400 (T)</td>
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<td>11.</td>
<td>Dealer receipts subject to sales tax at lease’s inception [3+5 +9+10]</td>
<td>$7,400 (T)</td>
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In Example C, the Dealer exercised the option to purchase the leased vehicle directly from leasing company. Trade-in was titled to leasing company, not the customer, thus this transaction is not a trade-in per Kansas statutes. However, the dealer purchased the leased vehicle and received $2,000 more than the residual value. The amount is treated as the dealer's taxable receipt. Thus, in this example, the dealer receives a taxable total of $7,400 on the lease transaction (4 + 5 + 9 +10), which is subject to sales tax based on the primary property location of the vehicle being leased. The $2,000 manufacturer’s assigned and paid to the dealer is taxed in the same way as a down payment.

For Example C, the leasing company's starting point for determining the monthly installment payments is the gross capitalized cost. In this case, the gross capitalized cost includes the agreed on value of the vehicle plus registration fees, license fees, property taxes, acquisition and administrative fees, and leasing company fees. Here, the capitalized cost reduction is the sum of the assigned manufacturer’s rebate and the down payment, or $5,000. (4 + 5). This amount reduces the taxable net capitalized cost to $25,000 ($30,000 – $5,000). The $25,000 amount will be amortized, which will yield the tax base of the lessee’s installment payments. This is done by adding the depreciation fee to the finance fee. [Depreciation Fee = (Net Cap Cost – Residual) ÷ Term]; [Finance Fee = (Net Cap Cost + Residual) x Money Factor]. Because there is no pay off of a loan balance on the leased vehicle, the entire monthly installment charge will be taxed.

Example D.  *New Vehicle Lease* --Customer Receives Manufacturer's Rebate, and a Dealer Price Discount.  [T = Tax to be collected by dealer]
1. Gross cap cost including dealer discount of $2,000 $30,000

2. Manufacturer's rebate assigned to dealer $3,500 (T)

3. Manufacturer's cost reduction (paid to dealer) $1,000

4. Dealer’s discount $2,000

5. Down payment paid to dealer by customer $3,000 (T)

6. First month lease payment paid to dealer $400 (T)

7. Dealer’s receipt subject to sales tax at lease’s inception $6,900 (T)

In Example D, the Dealer received taxable payment of $3,400. The $3,500 manufacturer’s rebate assigned and paid to the dealer is taxed in the same way as a down payment. Dealer must collect sales tax on this amount and source it to primary property location of the vehicle being leased.

For Example D, the leasing company's starting point for determining the monthly installment payments is the gross capitalized cost --- $30,000. The leasing company next determines the net capitalized cost of the vehicle. This is determined by subtracting the capital cost reductions (the sum of the down payment plus trade-in allowance plus assigned manufacturer's rebate (2 + 5 or $6,500) from the gross receipts. ($30,000 – $6,500 = $23,500). The manufacturer's rebate assigned to dealer is taxable but does not affect any of these calculations.

The $23,500 amount or the net capitalized cost will be amortized, which will yield the tax base of the lessee’s installment payments. This is done by adding the depreciation fee to the finance fee. [Depreciation Fee = (Net Cap Cost – Residual) ÷ Term]; [Finance Fee = (Net Cap Cost + Residual) x Money Factor]. Because there is no pay off of a loan balance on the leased vehicle, the entire monthly installment charge will be taxed.

**E. New Vehicle Lease - Entire Lease is Prepaid by Lessee at Origination.** [T = Tax to be collected by dealer]

1. Suggested retail price of vehicle being leased $30,000

2. Manufacturer's rebate assigned to dealer $2,000 (T)

3. Dealer discount $1,000

4. Lease installments prepaid by lessee to dealer $15,500 (T)

5. Dealer receipts subject to sales tax at lease’s inception $15,500 (T)
The manufacturer's rebate (2) and the entire lease proceeds (5) paid to the dealer at the lease’s inception are subject to Kansas sales tax if the lessee is a Kansas resident. Any incidental charges made by the lessor to the lessee also are taxable.

**Other publications.**

The following publications are available free from the Kansas Department of Revenue. Obtain your copy by visiting our web site at www.ksrevenue.gov, or by calling our voice mail Forms Request Line at 785-296-4937. While the Department of Revenue has discontinued printing some of these publications, all of them are available on our web site.

- EDU-26, Sales Tax Guidelines for Contractor and Contractor-Retailers
- EDU-27, Sales Tax Guidelines for Fabricators
- EDU-28, Sales Tax Guidelines Businesses that Sell and Service Appliances and Electronic Products
- EDU-29, Sales Tax Guidelines for Contractor-Fabricators and Contractor-Manufacturers
- Pub. KS-1216, Kansas Business Tax Application
- Pub. KS-1500, North American Industry Classification System
- Pub. KS-1510, Kansas Sales and Compensating Use Tax
- Pub. KS-1520, Kansas Exemption Certificates
- Pub. KS-1526, Kansas Sales and Use Tax for Motor Vehicle Transactions
- Pub. KS-1527, Kansas Sales and Use Tax for Political Subdivisions
- Pub. KS-1540, Kansas Business Taxes for Hotels, Motels & Restaurants
- Pub. KS-1550, Kansas Sales and Use Tax for the Agricultural Industry
- Pub. KS-1560, Kansas Tax Guide for Schools and Educational Institutions
- Pub. KS-1700, Sales Tax Jurisdiction Code Booklet
- KW-100, Kansas Withholding Tax Guide

**Taxpayer Assistance.** If you have questions about this publication, please contact the Taxpayer Assistance Center at 1-785-368-8222. Our fax number is 1-785-291-3614. Additional copies of department publications are available by calling the department's forms request line at 1-785-296-4937 or by download from our website: www.ksrevenue.gov. The number for the department's hearing impaired TTY is 1-785-296-6461.

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