TAX REIMBURSEMENT CALCULATION

A dealer agrees to lease a vehicle to a customer (lessee) who is paying $2,000 at lease signing. The lease contract requires the customer to reimburse the tax owed by the dealer and leasing company. Before taking the reimbursement of tax into account, the dealer determined that the customer's monthly lease payment for the vehicle would be $500 for 36 months, resulting in total payments of $20,000 ($2,000 due at lease signing plus $18,000 in lease payments). The combined sales tax rate in the location where the sale is made is 6.25%. If the tax owed by the dealer (ROT)/leasing company (UT) were not included in the lease contract, then the tax owed would be $1,250 ($2,000 + $500 x 36 months x 6.25%). However, since the lease contract includes reimbursement to the dealer/leasing company for tax they owe, the dealer will increase the amount of the monthly payment under the contract to include reimbursement of tax. This will result in a higher monthly lease payment and a greater amount of tax due (since selling price is now *measured* by the amount received by the leasing company under the lease contract). In this situation, one method to calculate the total amount of the lease payments required in order to fully reimburse the dealer/leasing company for the tax they owe, is shown on the worksheet below.

Worksheet

1. Enter 1.00 .... 1.00

2. Enter the combined state and local tax rate as a decimal ..... .0625

*3. Subtract line **2** from line **1** .... .9375*

*4. Divide line **1** by line **3** 1.06667*

5. Enter the total taxable amount of the lease $20,000

*6. Multiply line **5** by the percentage on line **4** $21,333*
*(This will be **Line 1 & 3** of **ST-556-LSE**)*

7. Multiply line 6 by the tax rate decimal on line 2 .... $ 1,333
*(This will be **Line 4** of the **ST-556-LSE**)*