

# ILLINOIS AUTOMOBILE DEALERS ASSOCIATION

## FACT SHEET HB 2317

Long-Term Lease Tax Legislation

Representative: Zalewski

Senator: Harmon — Althoff

We Support



### **SYNOPSIS**

Amends the Use Tax Act to provide that the tax base for automobiles subject to a lease agreement of one year or more in length is 6.25% of the lease receipts, rather than the entire selling price of the vehicle. Eliminates the use of customer and dealer trade-in credits in lease transactions.

### **BACKGROUND**

Under current Illinois tax laws, there is a difference in the tax treatment of short-term leases (defined as one year or less) and long-term leases (defined as over one year).

Currently, for short-term leases, tax obligation is based on monthly receipts. For long term leases, tax is paid at the inception of the entire lease on the selling price of the vehicle plus related charges. A consumer pays the same amount of tax to lease a vehicle 2 or 3 years as he or she would pay to buy the same vehicle.

A fairer way to tax the vehicle would be to charge tax on the monthly payments. The monthly payment tax would require that consumers would only pay tax on the part of the vehicle that he or she actually uses.

Under the current law, if a consumer decides to purchase the vehicle at the end of the lease, the consumer must pay tax again on what is called the "residual value" ( the value of the vehicle at the end of the lease), even though the consumer has already paid tax on that amount when the vehicle was originally leased. In other words, consumers are paying tax twice on the same vehicle. The current tax structure on leases is anti-consumer and unfair. A monthly payment tax would eliminate this inequity.

### **ANALYSIS**

Under HB2317, consumers will be encouraged to lease because the monthly lease payment will be lowered as the tax obligation will be assessed on the monthly lease payment. For a \$32,000 vehicle which is leased for two years, the monthly lease rate will decrease by \$60 per month. Lower monthly payments will definitely encourage consumers to consider leasing because the payments will be more affordable and attractive, leading to increased activity in short-term leasing, and ultimately resulting in more tax revenues for the state. According to a study performed by outside tax consultants, the changes proposed in HB2317 could increase sales tax collections by \$14 million per year.

Encouraging leasing will also lead to increased sales of valuable, late-model off-lease vehicles. Currently, studies show that a consumer purchases a car only once every eleven years. With this legislation, at the end of a typical three year lease, consumers will most likely rollover into a new lease of a cleaner, more fuel-efficient vehicle. When this occurs, the state will be collecting revenues on the new lease, in addition to retailers' occupation tax on the sale of the vehicle coming off the old lease. The sale of the vehicle coming off the lease will realize significant revenues for the state because the retail price of three year old vehicles sustains high residual values. In the long term, there will be more business generated because of the increased leases and the increased selling of off-lease vehicles, resulting in increased tax revenues for the state.

Currently, high up-front taxes cause Illinois dealers and leasing companies to lose leasing. Almost all states assess tax on monthly gross receipts rather than the purchase price of leased vehicles. Illinois leasing companies and consumers are at a disadvantage because they have to incorporate this tax within the monthly lease payment, resulting in higher monthly lease payments.

### **COMMENTS**

House Bill 2317 passed out of the Senate on a vote of 55-0. The Illinois Automobile Dealers Association representing 800 franchised new car and truck dealers and the Chicago Automobile Trade Association support this legislation. For further information contact Joe McMahan at (217) 753-0220.