
COMPLIANCE ALERT



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Compliance Problem

Many out-of-state leasing companies are not filing the correct tax form when selling a used vehicle at the end of a lease to an Illinois purchaser. Many are using Form RUT-25, Vehicle Use Tax Transaction Return, which is incorrect. These sales must be reported on Form ST-556, Sales Tax Transaction Return.

In addition, many out-of-state leasing companies at the end of the lease are filing Form RUT-25-X, Amended Vehicle Use Tax Transaction Return, to receive a credit, up to the amount of the tax incurred on the subsequent sale of the leased vehicle, for taxes they previously paid when the leased vehicle was initially titled or registered with an agency of Illinois state government. Credit for these previously paid taxes must now be claimed on Form ST-556.

Solution

If you are an out-of-state leasing company who is also in the business of selling to Illinois purchasers used vehicles that are located in Illinois at the time of the sale, you must report these sales on Form ST-556, Sales Tax Transaction Return. This situation will occur most often when you sell a used vehicle at the end of a lease to an Illinois purchaser.

Note: Under Illinois law, a lessor selling vehicles coming off lease is automatically deemed to be in the business of selling such vehicles.

To help out-of-state leasing companies to comply with the law, the department offers the following guidance:

- ◆ You must register by completing Form REG-1, Illinois Business Registration Application. To get a copy of Form REG-1, visit our web site at tax.illinois.gov, or call our 24-hour Forms Order Line at **1 800 356-6302**.
Note: There is no charge to register as a retailer.
- ◆ Taxes on the sales of these vehicles are due 20 days after the leasing company sells the vehicle to an Illinois purchaser at the end of the lease.
- ◆ To find the appropriate tax rate for each purchaser, refer to the rate listed for "Vehicle (ST-556)" on the **Tax Rate Finder** on our web site at tax.illinois.gov.
- ◆ Tax previously paid to the state of Illinois on Form RUT-25 or Form ST-556 must now be claimed on Form ST-556 when a leased vehicle that is located in Illinois is later sold to a purchaser with an Illinois address.
Note: RUT-25-X can no longer be used to file this type of claim.

Background

This alert is an attempt to advise out-of-state leasing companies of Illinois law and how to properly register and report transactions when a vehicle is sold at the end of the lease to Illinois purchasers.