



ST-9-LSE

A Guide for Reporting Sales Using Form ST-556-LSE, Transaction Return for Leases

For retailers making sales of items that are simultaneously being leased as part of the same transaction and that are required to be titled or registered by an agency of Illinois state government

Preface

The information in this guide will help you, as a retailer, to determine whether the receipts from your sales are subject to Illinois sales tax. This guide will also help you to document and report properly both taxable and exempt sales.

The sales discussed in this guide are sales of items that are simultaneously being leased as part of the same transaction, in cases where the item is the kind of item that is required to be titled or registered by an agency of Illinois state government (e.g., vehicles, watercraft, aircraft, trailers, and manufactured (mobile) homes) and reported on Form ST-556-LSE, Transaction Return for Leases.

This guide is arranged in a question-and-answer format by topic. You may find that some of the material is discussed in more than one section, depending upon how it relates to each question.

If you are unsure whether a sale is subject to tax and you cannot find the answer in this guide, contact the Illinois Department of Revenue (IDOR) using the information under the “How do I get help?” section.

If you have other topics that you would like to see addressed in future updates of this guide, please email:

Rev.TA-Sales@illinois.gov

The information in this guide is derived from the Retailers’ Occupation Tax Act and related tax acts, the rules and regulations of (IDOR) as published in the Illinois Administrative Code, and court decisions.

The contents of this publication are informational only and do not take the place of statutes, rules and regulations, or court decisions.

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Part 1: General Information

Part 1 provides a general overview of the registration and filing requirements for retailers filing Form ST-556-LSE.

A note about the taxation in Illinois of long-term (more than 12 months) leases of items that are required to be titled or registered by an agency of Illinois state government: It is important to note at the outset of this publication that the State of Illinois taxes long-term (more than 12 months) leases of items that are required to be titled or registered by an agency of Illinois state government (referred to here as “titled or registered items”) differently for Retailers’ Occupation Tax and Use Tax purposes than the majority of other states. For Illinois sales tax purposes, lessors (e.g., vehicle leasing companies) of titled or registered items are deemed end users of the property to be leased. As end users of titled or registered items located in Illinois, lessors owe Use Tax on the selling price of such property. The State of Illinois imposes no tax on the lease receipts. Consequently, lessees (e.g., lease customers) incur no tax liability. The above guidelines are applicable to all leases of titled or registered items except for automobiles leased under terms of one year or less, which are subject to the Automobile Renting Occupation and Use Tax found at 35 ILCS 155/1 et seq.

Under Illinois law, lessors under long-term leases may not “pass through” their tax obligation to the lessees as taxes. However, lessors and lessees may make private contractual arrangements for a reimbursement of the tax to be paid by the lessees. If lessors and lessees have made private agreements where lessees agree to reimburse lessors for the amount of the tax paid, then lessees are obligated to fulfill the terms of the private contractual agreements. As noted, however, these are private contractual agreements.

Illinois retailers (e.g., automobile dealers) who sell titled or registered items to purchasers (lessors) who simultaneously enter into long-term leases of the items to lessees as part of the same transaction incur Retailers’ Occupation Tax liability on the sales of those items. Illinois retailers report this transaction on Form ST-556-LSE.

Public Act 98-628 (as amended by Public Act 98-1080) expanded the definition of “selling price” in the Retailers’ Occupation Tax Act to provide that, beginning on January 1, 2015, only with respect to first division motor vehicles and certain second division motor vehicles that are sold to a lessor and simultaneously leased in the same transaction for a defined period that is longer than one year, “selling price” means “the consideration received by the lessor pursuant to the lease contract.” See 35 ILCS 120/1. It is important to note that, while this provision has been referred to as a “lease tax” by some, Public Act 98-628 did not change who the Retailers’ Occupation Tax or the Use Tax is imposed upon (Retailers’ Occupation Tax imposed on sellers; Use Tax imposed on purchasers (lessors); no tax imposed on lessees) or that the tax is measured by the selling price. It simply changed how the selling price is determined for these transactions.

Effective January 1, 2023, [Public Act \(P.A.\) 102-1019](#) requires retailers to electronically file Form ST-556-LSE and any related attachments if the retailers’ annual gross receipts average \$20,000 or more. If you are required to file electronically and do not, the retailers’ discount, or retailers’ allowance, for timely filed and paid returns will be disallowed.

Note: Amended returns filed after January 1, 2023, will not cause a previously allowed retailer’s discount to be removed. See [FY 2023-06, Electronic Filing Requirements for Retailers of Motor Vehicles, Watercraft, Aircraft, and Trailers, Effective January 1, 2023](#) for more information.

P.A. 102-1019 includes a provision for a waiver of the electronic filing requirement if you do not have internet access or demonstrate hardship in filing electronically. Contact Taxpayer Assistance at 1 800 732-8866 or 217 782-3336 to request a waiver form. Complete the waiver form, and mail it to the address listed on the form. IDOR will notify you if the waiver request is approved or denied.

For returns due on or after January 1, 2025, the discount is limited to \$1,000 per month for all returns (i.e., both Forms ST-556 and ST-556-LSE) filed that month. The \$1,000 monthly cap applies to vehicle sales with a delivery date on or after December 12, 2024, which corresponds to returns due on or after January 1, 2025. Retailers will no longer be able to reduce the tax remittance by the amount of the retailers' allowance when filing Forms ST-556 and ST-556-LSE. To avoid potential billing issues or confusion, IDOR will calculate the discount on these returns through a monthly reconciliation process that will occur approximately 60 days after the end of a monthly liability period. The retailers' allowance will be issued once the reconciliation process is completed each month.

If you are not mandated to file Forms ST-556 and ST-556-LSE electronically and file using paper returns, do not enter a figure on the retailers' allowance line. You must remit all tax reported as due on your return to be issued the retailers' allowance, as applicable, through IDOR's monthly reconciliation process.

I am a remote retailer or marketplace facilitator making a sale for lease of titled or registered items over the internet. What do I need to do?

This response applies to remote retailers and marketplace facilitators who meet a tax remittance threshold (see Note below). If you meet a tax remittance threshold, you must register with IDOR to report these sales for lease on Form ST-556-LSE, Transaction Return for Leases. Effective February 1, 2022, sales for lease of tangible personal property that is required to be titled or registered with an agency of the State of Illinois, including motor vehicles, watercraft, aircraft, and trailers, that are made by a remote retailer or over a marketplace to purchasers in Illinois are sourced the same as all other sales made by a remote retailer or over a marketplace to purchasers in Illinois. See 86 Ill. Adm. Code 131.110(e) and 131.130(c). For sales for lease made by a remote retailer or by a marketplace facilitator on behalf of marketplace sellers, taxes apply at the location in Illinois to which the titled or registered item is shipped or delivered, or the location in Illinois where the purchaser takes possession of the titled or registered item. For sales for lease made by marketplace facilitators of their own items, the marketplace facilitator incurs State and local retailers' occupation tax at the rate in effect at either the location of the inventory or the location in Illinois at which the selling activities otherwise occur (as determined by applying the provisions of 86 Ill. Adm. Code 270.115(c) and (d)). For sales for lease made by marketplace facilitators of their own items that are not fulfilled from inventory in Illinois and for which selling is not engaged in at any location in Illinois, taxes apply at the location in Illinois to which the titled or registered item is shipped or delivered or the location in Illinois where the purchaser takes possession of the titled or registered item.

If an Illinois lessee travels to an out-of-state location to take possession of an item that is required to be titled or registered with an agency of the State of Illinois, the sale for lease is sourced out of state and only Use Tax is incurred. The purchaser is responsible for filing the RUT-25-LSE, Use Tax Return for Lease Transactions, and paying any remaining tax due based on the lessee's Illinois address. You do not need to file Form ST-556-LSE or collect tax. As discussed in the beginning of this Part, the leasing company is the "purchaser" who owes use tax in these transactions. However, the lease contract typically requires the lessee to pay any sales or use tax imposed on the leasing company. As a result, the lessee may be responsible for filing the RUT-25-LSE, Use Tax Return for Lease Transactions, and paying the tax due.

Note: Remote retailers and marketplace facilitators should see the [Leveling the Playing Field for Illinois Retail Act Resource Page](#) for additional information.

I am retailer with physical presence in Illinois who makes sales for lease of titled or registered items from outside Illinois that I deliver to the lessee in Illinois. What do I need to do?

See [Informational Bulletin FY 2025-10, Retailers' Occupation Tax Guidance for Out-of-State Retailers and Certain Illinois Retailers, Effective January 1, 2025](#). References in that bulletin to Form ST-1 mean Form ST-556-LSE for purposes of this publication.

Who must register to file Form ST-556-LSE?

If you sell at retail in Illinois items that must be titled or registered and the item is simultaneously being leased as part of that transaction, you must register with IDOR to report these sales on Form ST-556-LSE, Transaction Return for Leases.

If you are a lessor leasing an item that must be titled or registered and you sell that item in Illinois at the end of the lease, you must report the sale on Form ST-556, Sales Tax Transaction Return.

Note: Under Illinois law, when a leasing company sells an item coming off a lease in Illinois and that item must be titled or registered by an agency of Illinois state government (e.g., vehicles, watercraft, aircraft, trailers, and manufactured (mobile) homes), the leasing company is considered to be selling such items at retail in Illinois and is obligated to collect Illinois sales tax on that transaction. If you are a leasing company engaged in the business of selling such previously leased items to Illinois purchasers and the items are located in Illinois at the time of the sale, you must report these sales on Form ST-556.

Note: Effective January 1, 2025, persons engaged in the business of renting or leasing the following items are subject to Illinois Sales and Use Tax and must report and pay tax on their rental or lease receipts as they are collected from the customer:

- trailers that must be registered with an agency of this State, other than semitrailers as defined in Section 1-187 of the Illinois Vehicle Code, and
- items that must be titled with an agency of this State but not registered with an agency of this State, such as all-terrain vehicles (“ATVs”), off-road motorcycles, and manufactured (mobile) homes located in a mobile home park.

Rentors and lessors of these items should not use Form ST-556 or Form ST-556-LSE to report rental or lease receipts from these items. Instead, rentors and lessors of these items should use Form LSE-1 to report these rental or lease receipts. If, however, as part of the lease the lessee of a trailer other than a semitrailer will register the trailer with the Illinois Secretary of State in the lessee’s name, then, in addition to reporting and paying tax on lease receipts using the LSE-1, the trailer lessor must complete Form ST-556-LSE for registration purposes only and must mark the “Other” exemption and enter “trailer lease.”

How do I get information on registering as a retailer?

You can find information on registering as a retailer in Publication 113, Retailer’s Overview of Sales and Use Tax and Prepaid Wireless E911 Surcharge, available on our website at tax.illinois.gov.

How do I get answers to my registration questions?

You can find answers to frequently asked tax questions and more using the Taxpayer Answer Center, available on our website at tax.illinois.gov. If you cannot find an answer, you can email IDOR through the Taxpayer Answer Center.

You can also call our Central Registration Division at **217 785-3707** or write to the following address:

CENTRAL REGISTRATION DIVISION
ILLINOIS DEPARTMENT OF REVENUE
PO BOX 19030
SPRINGFIELD IL 62794-9030

What if I have one business but have more than one business site?

If you register to sell items at more than one site, we will issue a certificate of registration for each site you list on Form REG-1, Illinois Business Registration Application, and its schedules.

What if I change the location of my business or one of my sites?

If you change the location of your business or, for multiple site filers, one or more of your sites, you can update your registered locations using MyTax Illinois at mytax.illinois.gov. You can also contact the Central Registration Division to have them update your site information for you. It is important for us to keep this information up to date to ensure that you are filing using the correct tax rate. This is also important to IDOR to ensure that we allocate the tax you collected to the proper jurisdiction.

Will I need to renew my certificate?

If you are registered as a retailer and are required to file sales tax returns, your certificate of registration expires after one year. Unless we notify you otherwise, we will renew your certificate of registration automatically.

What if my certificate is lost, damaged, or destroyed?

If your certificate is lost, damaged, or destroyed, you can print a replacement using MyTax Illinois at mytax.illinois.gov. You can also contact our Central Registration Division and request a new certificate. If you discontinue your business, your certificate is invalid as of that date.

You must update your registration information with IDOR. MyTax Illinois at mytax.illinois.gov, allows you to close your existing business and register a new one or to maintain your registered locations. You can also contact our Central Registration Division so that we can update our records. It is important that you update your registration information with us when you go out of business or discontinue a location.

What if I discontinue my business or one of my sites?

If you change the structure of your business, (e.g., changing from a sole proprietorship to a corporation) you must tell us to discontinue the old business entity, and register the new business entity by completing a new Form REG-1, Illinois Business Registration Application.

Note: Certificates of registration cannot be transferred.

Are there other types of sales taxes or fees for which I may need to register?

Depending on the nature of your business activities as well as your business location, you may need to register for other related sales taxes and fees. In particular, to register to file Forms ST-556 and ST-556-LSE, you must be registered to file Form ST-1, Sales and Use Tax and E911 Surcharge Return. You do not need to complete a separate registration application for additional taxes. Form REG-1 inquires about a wide range of business activities, and based on your responses, we will register you for the appropriate taxes.

Who must register for the Automobile Renting Occupation and Use Tax?

You must register for automobile renting occupation and use tax if you rent automobiles, motor-driven cycles, qualifying recreational vehicles, or qualifying vans for periods of one year or less.

See Publication 114, Automobile Renting Occupation and Use Tax, for more information.

What items must be reported on Form ST-556-LSE?

Items such as cars, trucks, vans, motorcycles, ATVs, buses, watercraft, aircraft, motor homes, trailers, snowmobiles, and manufactured (mobile) homes must be reported on Form ST-556-LSE, when sold at retail in Illinois and the item is simultaneously being leased as part of that transaction. Do not use Form ST-556 to report items being sold and simultaneously leased as part of the same transaction. All sale for lease transactions for these items are reported on Form ST-556-LSE.

Note: When a retailer permanently affixes or incorporates a manufactured (mobile) home into real estate, that retailer is acting as a construction contractor and owes sales tax on his or her cost of the manufactured (mobile) home and other items that become part of real estate. Receipts and tax, when due, must be reported on Form ST-1, Sales and Use Tax and E911 Surcharge Return. See 86 Ill. Adm. Code 130.1940 and 130.2075.

When is my ST-556-LSE return due?

Form ST-556-LSE and any tax payment are due within 20 days after the date of delivery of the item. Tax is due on the sale of an item in Illinois regardless of whether you submit an application for registration.

How does IDOR determine if a Form ST-556-LSE is filed within 20 days after the date of delivery?

When you file Form ST-556-LSE electronically, the submission date is automatically recorded. If you use MyTax Illinois to file your return electronically and print a paper copy of your submitted return, the copy displays the submission date.

When you submit a paper Form ST-556-LSE, the titling agency that originally receives the return will record the date received. IDOR will compare this received date to the delivery date to determine timely filing. If the due date falls on a weekend or state holiday, the due date will be the next business day.

What is the normal process for filing Form ST-556-LSE?

When you sell an item at retail that is required to be titled or registered in Illinois and the item is simultaneously being leased as part of that transaction, the appropriate titling agency of Illinois state government needs to see documentation verifying that all appropriate taxes have been paid. Effective January 1, 2023, retailers are required to electronically file Form ST-556-LSE and any related attachments if the retailer's annual gross receipts average \$20,000 or more. If you file using MyTax Illinois, a copy of the confirmation page of your filed Form ST-556-LSE from MyTax Illinois must be submitted with the

purchaser's application for title or registration to the titling agency. This will serve as sufficient proof that the return has been filed and the tax has been paid. If you did not print this confirmation page, you can print a copy of your return from MyTax Illinois. This print copy displays the confirmation number of your filed return and also will be accepted as proof of filing.

Note: If you file electronically using a direct file service, the electronic submission likely will include both the necessary return and the titling and registration paperwork. If you are unsure what will be sent, contact your direct file service provider.

Paper Form ST-556-LSE may be filed by retailers that have an approved waiver request from the electronic filing mandate on file with IDOR or that do not meet the requirements to file electronically. With a paper Form ST-556-LSE, you must submit an original completed return with your titling and registration paperwork to the appropriate agency. The titling agency records the date it received Form ST-556-LSE on the return and forwards it, along with any tax payment, to IDOR. If your customer will not be titling or registering the item in Illinois, then you must send Form ST-556-LSE directly to IDOR.

If the item will not be titled or registered in Illinois as a result of a particular sale, send your return directly to:

RETAILERS' OCCUPATION TAX
ILLINOIS DEPARTMENT OF REVENUE
PO BOX 19042
SPRINGFIELD IL 62794-9042

If you need assistance, call

1 800 732-8866

If your customer will be titling or registering the item in Illinois, send Form ST-556-LSE to the correct address from the list below:

- For a vehicle, trailer, or manufactured (mobile) home, send the return and the title application to:

OFFICE OF THE SECRETARY OF STATE
VEHICLE SERVICES DEPARTMENT
HOWLETT BUILDING
SPRINGFIELD IL 62756-7000

If you need assistance, call

1 800 252-8980 (general information)

217 782-6387 (registration information)

217 782-6306 (title information)

- For a watercraft or snowmobile, send the return and the title application to:

ILLINOIS DEPARTMENT OF NATURAL RESOURCES
PO BOX 19226
SPRINGFIELD IL 62794-9226

If you need assistance, call

1 800 382-1696 (general information)

217 557-0180 (registration information)

- For an aircraft, send the return and the registration application to:

ILLINOIS DEPARTMENT OF TRANSPORTATION
DIVISION OF AERONAUTICS
ABRAHAM LINCOLN CAPITAL AIRPORT
1 LANGHORNE BOND DRIVE
SPRINGFIELD IL 62707-8415

If you need assistance, call

1 800 554-0247 (general information)

217 785-8223 (registration information)

Do I have to file a separate return for each item I lease?

A separate Form ST-556-LSE normally is required for each item you sell that is simultaneously being leased in the same transaction. For example, the sale for lease of both a boat and a trailer must be reported on separate Form ST-556-LSE returns.

You may report more than one item on a single return only when you have sales for lease to a single purchaser of more than one motor vehicle, watercraft, aircraft, or trailer, and these sales are exempt as leases for use as qualifying rolling stock. To report multiple sales for lease for use as rolling stock on a single Form ST-556-LSE, you must attach Form ST-556-R, Resale and Rolling Stock Fleet Exemption Schedule. **Page 9**

The multiple sales that you report on Form ST-556-R must be sales for lease for use as qualifying rolling stock made to the same lessor, must be the same kind of item, and must have the same delivery date. Otherwise, you must report each sale for lease on a separate Form ST-556-LSE.

If a lease is exempt from tax, do I still need to file a return?

Yes. You must file a transaction return for every sale for lease made in Illinois of the kinds of items that are required to be titled or registered with an agency of Illinois State government, even if no tax is owed. Exempt sales for lease still must be reported on Form ST-556-LSE.

Is there a penalty for not filing a return to report an exempt transaction?

If you are a retailer required to file a transaction return (ST-556 or ST-556-LSE), you owe a nonfiling of a transaction return penalty for each instance in which you make a sale for which no tax is due but you fail to properly report that sale on or before the due date to IDOR using Form ST-556 or Form ST-556-LSE. See CA 2017-17, available on our website at tax.illinois.gov.

If I run out of paper Form ST-556-LSE returns, may I photocopy one of my preprinted returns or use a preprinted return from one of my other business sites?

No. You may not photocopy or otherwise duplicate a paper Form ST-556-LSE in order to increase the number of returns you have on hand. Each return is printed with a unique transaction number that we use to identify each specific transaction. Filing a photocopied return may cause delays in processing the return and may result in our assessing you for penalties and interest.

You may not use a preprinted return from another business site. The paper Form ST-556-LSE returns we issue are preprinted with information specific to each business site and may not be exchanged. We use this information to allocate taxes collected to local governments.

A paper Form ST-556-LSE issued to one business may not be used by any other business. Neither should you or your business continue to use the paper returns issued to you if you reorganize the business or change ownership, even if the principal owners remain the same (e.g., when you incorporate an existing partnership). Do not change or alter any of the preprinted information on the return unless required to do so when selling from an off-site location. For more information, see the “How do I report off-site sales (“tent” sales)?” section. See also ST-23, How to Report Off-Site Sales on Form ST-556, Sales Tax Transaction Return, or Form ST-556-LSE, Transaction Return for Leases, available on our website at tax.illinois.gov.

If the information on your preprinted Form ST-556-LSE is incorrect, if you need to report changes in ownership, in corporate officers, or in business or mailing addresses, or if you need to add or discontinue a site, contact us by writing to:

CENTRAL REGISTRATION DIVISION
ILLINOIS DEPARTMENT OF REVENUE
PO BOX 19030
SPRINGFIELD IL 62794-9030

You can also update your sites using MyTax Illinois at mytax.illinois.gov, or by calling us at **217 785-3707**. You can request single preprinted Forms ST-556-LSE using MyTax Illinois.

How do I amend my Form ST-556-LSE return?

To amend your Form ST-556-LSE, you must file Form ST-556-LSE-X, Amended Transaction Return for Leases. If you filed your original return electronically using MyTax Illinois, you can use that system to file your amended return as well.

What if I need to void an ST-556-LSE return?

To void a preprinted Form ST-556-LSE, write “VOID” across the front of the return. You should retain in your records copies of any returns that you mark as void for 42 months after the date you voided the return.

Note: We inventory and monitor all paper Form ST-556 and ST-556-LSE returns issued to your business. You are accountable for the use of each return.

When will I need a receipted copy of Form ST-556-LSE?

Traditionally, the tax you owe on a vehicle transaction is paid at the time that you title that vehicle. However, there may be times when you do not have all the documentation in order to title the vehicle, yet you must pay the tax to avoid late filing penalty and interest. In those cases, if you are filing a paper Form ST-556-LSE, you can file your tax return and make your tax payment directly with IDOR on or before the due date and request a receipted copy of your tax form. You may submit this receipted copy of your tax form to the titling agency in place of the original tax return to satisfy the titling agency's requirement to verify that the proper tax return has been filed and the tax has been paid.

If you filed Form ST-556-LSE electronically using MyTax Illinois, you should not request a receipted copy of your return. The Illinois Secretary of State or other state government titling agency will accept a copy of the confirmation page from MyTax Illinois as sufficient proof that the form has been filed and the tax has been paid. If you did not print this confirmation page, you can print your return from MyTax Illinois. This print copy displays the confirmation number of your filed return and will be accepted as an alternative to the confirmation page as proof of filing.

Important note for out-of state dealers, leasing companies, lending institutions, or other retailers

If you file a paper Form ST-556-LSE and make the tax payment directly with IDOR on behalf of your Illinois customer, you will need to provide a receipted copy of the return and payment to your customer. Your Illinois customers will not be able to obtain title and registration in Illinois without proof that the tax return already has been filed and the tax has been paid.

How do I obtain a receipted copy of Form ST-556-LSE?

If you are filing the tax return and making the payment directly with us and would like to request a receipted copy at the same time, you can do so either by mail or by visiting one of our offices in person.

If you are filing and paying by mail, send us the original tax return and a separate remittance for each tax amount due for each return you are filing, along with the following:

- a photocopy of each tax return you want us to receipt,
- a cover letter requesting us to receipt your photocopy, and
- a postage-paid envelope with the address indicating where you want the receipted copy mailed.

We will receipt the photocopy of your tax return at no charge by attaching an orange-colored label to the upper right-hand corner of your photocopy and return it to you in the postage-paid envelope that you provided.

Mail your request for a receipted copy, along with your tax return and payment, to:

ILLINOIS DEPARTMENT OF REVENUE
PO BOX 19042
SPRINGFIELD IL 62794-9042

If you prefer, you can visit one of our offices and request your receipted copy in person. You must bring an original tax return and a separate remittance for each tax amount due, along with a photocopy of each tax return you want us to receipt. IDOR personnel at the following locations will receipt and return to you the photocopy of your tax form.

In Chicago

Office of the Secretary of State
(Department of Revenue area)
5401 N. Elston Avenue

Office of the Secretary of State
(Department of Revenue area)
5301 W. Lexington Avenue

Office of the Secretary of State
(Department of Revenue area)
9901 S. Martin Luther King Drive

In Springfield

Illinois Department of Revenue
101 W. Jefferson Street

Note: This receipted copy process was established as a special service when circumstances prevent you from following the normal process of submitting your original tax return with the application for title and registration. Do not request a receipted copy of your tax return as a general practice to satisfy the requirements of the titling agency.

If I do not have my original return, can I obtain a copy through some other method?

Yes. If you do not have your original tax return or a copy, you must submit Form IL-4506, Request for Copy of a Tax Return, to request a copy. There is a charge for each copy you request and an additional charge if you would like to have that copy receipted. See Form IL-4506 for instructions and charges due.

If you are requesting a copy of your tax return for the purpose of applying for title and registration, a standard copy alone will not be accepted in the place of an original return or receipted copy. The Illinois Secretary of State or other state government titling agency will also require that you provide a copy of the front and back of the canceled check you used to pay the tax due on the return.

You can submit your Form IL-4506 request in person at our Springfield office, but please be aware that our personnel may not be able to provide you with a copy of your return at that time. If we cannot provide you with an immediate copy, we will complete your request by mailing the copy to the address you enter on the request form.

Note: Form IL-4506 requests are accepted in person only in our Springfield office. If you attempt to submit Form IL-4506 at any other regional office, you will be instructed to submit your request by mail.

You can request single paper preprinted Form ST-556-LSE using MyTax Illinois at mytax.illinois.gov. Paper preprinted ST-556-LSE returns are also issued by IDOR in limited quantities by calling our Central Registration Division at **217 785-3707**. Each preprinted form displays information for each of your business locations.

How do I get forms?

The following related sales and use tax forms and publications are available on our website at tax.illinois.gov:

- Form ST-556 Instructions
- Form ST-556-LSE Instructions
- Form ST-556-R, Resale and Rolling Stock Fleet Exemption Schedule
- Form ST-556-X, Amended Sales Tax Transaction Return
- Form ST-556-LSE-X, Amended Transaction Return for Leases
- Form ST-557, Claim for Credit for Repossession of Motor Vehicles, Watercraft, Aircraft, Trailers, and Mobile Homes
- Form ST-587, Equipment Exemption Certificate
- Form ST-588, Nonresidency Exemption Certification for Sales and Leases of Motor Vehicles and Trailers
- Form ST-589, Certificate of Eligibility for Sales and Use Tax Exemption — Community Water Supply
- Form RUT-7, Rolling Stock Certification Motor Vehicles and Trailers
- Form RUT-7-A, Rolling Stock Certification for Aircraft, Watercraft, Limousines, and Rail Carrier Items
- Form ST-556-WS, Worksheet and Signature Document for ST-556
- Form ST-556-LSE-WS, Worksheet and Signature Document for ST-556-LSE
- RUT-76, Transaction Return Chart
- ST-9, A Guide for Reporting Sales Using Form ST-556, Sales Tax Transaction Return
- ST-9-LSE, A Guide for Reporting Sales Using Form ST-556-LSE, Transaction Return for Leases
- ST-23, How to Report Off-Site Sales on Form ST-556, Sales Tax Transaction Return, or Form ST-556-LSE, Transaction Return for Leases

How do I request a Credit Activity Statement or a Detailed Liability Statement?

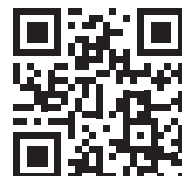
You can request a Credit Activity Statement or Detailed Liability Statement using MyTax Illinois at mytax.illinois.gov.

How do I get help?

If you need help, call us at **1 800 732-8866**, **217 782-3336**, or **1 800 544-5304** (TTY).

You may also visit our website at tax.illinois.gov or scan the QR code provided.

Language assistance services are available upon request and are free of charge.



Part 2: Specific Topics

Part 2 covers a variety of situations about which you may have questions in determining whether you are liable for Illinois sales tax. The topics are discussed in a question-and-answer format. If your particular situation is not covered or you are otherwise unsure of your tax obligations, contact IDOR using the information in the “How do I get help?” section.

In this Part 2, references to “lease transaction,” “leased vehicle,” “leased item,” “sold for lease” or “sell an item for lease” are references to situations where a retailer is making a sale of an item of titled or registered property and the item is simultaneously being leased as part of the same transaction.

Leasing

What does “leasing” mean?

“Leasing” means the transfer of possession or right to possession of an item to a person for “valuable consideration” for a period of time. For motor vehicles, the lease must be for a period of **more than one year**.

How are the parties involved in leasing defined?

For the purposes of this guide, the term “lessor” refers to the business that is engaged in leasing of items of the type that must be titled or registered by an agency of Illinois state government (e.g., vehicles, watercraft, aircraft, trailers, and manufactured (mobile) homes). The term “lessee” refers to the party that takes temporary possession of the item leased.

What does “renting” mean?

Illinois law distinguishes “renting” of motor vehicles from “leasing” of motor vehicles for tax reporting purposes.

“Renting of motor vehicles” means the transfer of possession or right to possession of a motor vehicle subject to the provisions of the Automobile Renting Occupation and Use Tax Act to a person for “valuable consideration” for a period of **one year or less**.

How are lease transactions reported?

With the very limited exception of the items discussed below, use Form ST-556-LSE, Transaction Return for Leases, to report all lease transactions occurring on or after January 1, 2015.

NOTE regarding the “new” lease tax: Effective January 1, 2025, pursuant to Article 75 of Public Act 103-592, if you lease or rent tangible personal property in the ordinary course of your business you are considered a retailer subject to Illinois’ Sales and Use Tax laws. Generally the changes made by this Public Act **DO NOT** apply to leases or rentals of property that is required to be titled and registered with an agency of this State. The changes made by this Public Act **do**, however, apply to leases or rentals of the following items:

- trailers other than semitrailers as defined in Section 1-187 of the Illinois Vehicle Code, and
- items that are required to be titled with an agency of this State but not required to be registered with an agency of this State, such as all-terrain vehicles (“ATVs”), off-road motorcycles, and manufactured (mobile) homes located in a mobile home park.

Effective January 1, 2025, persons engaged in the business of renting or leasing these items are subject to Illinois Sales and Use Tax and must report and pay tax on their rental or lease receipts as they are collected from the customer. Rentors and lessors of these items should **not** use Form ST-556 or Form ST-556-LSE to report rental or lease receipts from these items. Instead, rentors and lessors of these items should use Form LSE-1, Tax Return for Vehicle Leasing Companies, to report these rental or lease receipts. Form LSE-3, Lease/Rental Payments for Certain Titled or Registered Property, must be completed when you file Form LSE-1 to report your receipts for leases or rentals of these items.

How are lease transactions taxed?

In Illinois, with the very limited exception of the items discussed above under "How are lease transactions reported?", items sold to a lessor or removed from inventory for leasing purposes are subject to either sales or use tax. This is true because the lessor is the "user" of the item rather than the lessee. When you sell items to a lessor for leasing purposes, the sale is taxable to the lessor based on the selling price of the item, unless the sale is exempt.

On and after January 1, 2015, the "selling price" of an item of titled or registered property that is sold and simultaneously leased as part of the same transaction will be one of two amounts:

- the actual amount paid by the purchaser (lessor) to the seller of the vehicle, or
- the amount due at lease signing, plus the total amount of payments over the term of the lease.

How do I determine "selling price" on a leased vehicle?

Which one of these amounts you must use is determined by the type of item being sold for lease and the type of lease contract into which the lessor and lessee are entering.

You must use the "amount due at lease signing, plus the total amount of payments over the term of the lease" when the item being leased qualifies for this method. In order to qualify, the item must meet the following conditions:

- The lease must be for a first division motor vehicle or must be for one of the following second division motor vehicles:
 - a self-contained motor vehicle designed or permanently converted to provide living quarters for recreational, camping, or travel use, with direct walk-through access to the living quarters from the driver's seat;
 - a motor vehicle of a van configuration designed to transport not less than 7 and not more than 16 passengers; or
 - a motor vehicle having a gross vehicle weight rating (GVWR) of 8,000 pounds or less.
- The lease must be a fixed-term lease contract for a period of more than one year.

Fixed-term leases that contain provisions regarding the return of the vehicle or that allow for the lease to continue for a short period (e.g., 1 to 6 months), but only after the lessee fails to meet the original terms of the lease or only with further agreement by the lessor, still qualify as fixed-term leases.

Note: The Illinois Vehicle Code defines a first division motor vehicle as one designed to carry not more than 10 persons. The following are second division motor vehicles:

- a motor vehicle designed to carry more than 10 persons;
- a motor vehicle designed or used for living quarters;
- a motor vehicle designed for pulling or carrying freight, cargo, or implements of husbandry; or
- a first division motor vehicle remodeled for use and used as a second division motor vehicle.

You must use the actual amount paid by the purchaser (lessor) to you for the item being leased when you do not qualify to use the amount due at lease signing, plus the total amount of payments over the term of the lease. As a result, the "selling price" of the vehicle for calculating sales tax is the actual amount, minus trade-in credit, that the dealership charges to the leasing company to purchase the vehicle.

The following are examples of items that must use the actual amount paid by the purchaser (lessor):

- motor vehicles that are not of the first division or qualifying second division;
- watercraft, aircraft, trailers, snowmobiles, and manufactured (mobile) homes;
- items under lease contracts that are not defined by a fixed-term; or
- items under lease contracts with an initial defined period but that allow for a continuation month to month, or on another basis beyond the defined initial period thereafter, at the option of the lessee, until the lessee notifies the lessor in writing of the intent to terminate the lease.

Under what circumstances is use tax due on a leased item?

If you, the dealer, also are acting as the lessor and you remove an item from your inventory for leasing purposes, you owe use tax on the item. If the leased item is not a qualifying item as described above, you will owe use tax on your cost price of the item. Complete Form ST-556-LSE by marking Box B in Section 7 and by reporting in Section 8, Line 1, the cost price of the item you are offering for lease. For a qualifying leased item, mark Box A in Section 7, and in Section 8, Line 1, enter as the “selling price” the amount due at lease signing, plus the total amount of payments over the term of the lease. Since these transactions are not considered sales, you are not entitled to claim the 1.75 percent retailers’ allowance taken in Section 8, Line 7.

Note: If you use a direct file service through an outside vendor to complete Forms ST-556 and ST-556-LSE, you should make sure the retailers’ allowance, discussed above, is not automatically calculated in the above situation. If you have any questions, contact the provider of your direct file service.

Under what circumstances is sales or use tax not due on a leased item?

In the following instances, you do not need to collect sales tax (or, if you are the lessor, pay use tax) on an item to be used for leasing purposes:

- The lessee will title or register the item in another state.
- The lessor will lease the item to a lessee who will use the item primarily in production agriculture.
- The lessor will lease a ready-mix concrete truck to a lessee who will use the item primarily in the manufacture of tangible personal property to be sold at retail.
- The lessor will lease the item to a governmental body with an active Illinois tax exemption “E” number.
- The lessor will lease the item to a lessee who will use the item as rolling stock.

For more information on how to report tax-exempt sales, see Part 3.

May I claim qualified trade-in credit with an item to be used for leasing purposes?

You may claim qualified trade-in credit in a sale for lease transaction and reduce the sales tax (or, if you are the lessor, use tax) liability only when the selling price reported in Section 8, Line 1, of Form ST-556-LSE is the actual amount paid by the purchaser (lessor) to the seller for the leased item. A trade-in credit is not allowed in a sale for lease transaction if you must use the amount due under the lease contract as the selling price reported in Section 8, Line 1, of Form ST-556-LSE.

What documents am I required to keep for a lease transaction?

Retain a copy of the lease contract in your records for documentation.

Reporting “other” items on Form ST-556-LSE

Must I include on Form ST-556-LSE sales of accessories that are normally reported on Form ST-1?

If you sell an item for lease that must be reported on Form ST-556-LSE and are required to use the value of the lease contract as the selling price for the leased item, you must include in the selling price the additional accessories for that item if the cost for the accessories is included in the value of the lease contract. Enter the total selling price, including those accessories, in Section 8, Line 1, of the return. If the value of the lease contract does not include the cost of the additional accessories, you still may report the total combined sale of the item and additional accessories on Form ST-556-LSE, but only if you are required to report as the selling price for the leased item the actual amount paid by the purchaser (lessor) for the leased item, not the value of the lease contract. If you are required to use the value of the lease contract as the selling price for the leased item and the contract does not include the cost of the accessories, you must report the sale of the accessories separately on Form ST-1. Do not include the cost of those accessories in the selling price you report on Form ST-556-LSE.

If you sell accessories separately, you must report the receipts from these sales on Form ST-1.

Watercraft

What “watercraft” must I report on Form ST-556-LSE?

You must report on Form ST-556-LSE the sale for lease of

- vessels 16 feet in length or longer;
- jet skis or other similar “personal watercraft”; or
- any vessels having inboard motors, regardless of length.

Sales of Class A watercraft (canoes/kayaks) or Class 1 watercraft (other watercraft less than 16 feet in length) from a retailer generally are reported on Form ST-1 and not reported on a transaction return (used for titled or registered property). However, Class 1 watercraft that are a personal watercraft or that are equipped with an inboard motor and Class 2, 3, or 4 watercraft that are sold and simultaneously leased in the same transaction through an Illinois retailer, must be reported on Form ST-556-LSE.

May I combine the lease of a boat and a trailer on Form ST-556-LSE?

No. If you lease a trailer and a boat in the same transaction, you must report each leased item on a separate Form ST-556-LSE and include the appropriate tax return with each application for title or registration you send to the appropriate titling agency.

Manufactured homes (formerly known as mobile homes)

What determines how leases of manufactured (mobile) homes are taxed?

Effective January 1, 2025, pursuant to Article 75 of Public Act 103-592, if you lease or rent tangible personal property in the ordinary course of your business, you are considered a retailer subject to Illinois' Sales and Use Tax laws. Generally, the changes made by this Public Act **DO NOT** apply to leases or rentals of property that is required to be titled or registered with an agency of this State. The changes made by this Public Act **do**, however, apply to leases or rentals of manufactured (mobile) homes that are required to be titled with an agency of this State but not required to be registered with an agency of this State, if the manufactured (mobile) home is located in a mobile home park.

The Manufactured Home Installation Act (35 ILCS 517/5) requires that manufactured (mobile) homes located in a mobile home park must be assessed and taxed as chattel. For purposes of this discussion, "mobile home park" means a tract of land or two contiguous tracts of land that contain sites with the necessary utilities for five or more mobile homes or manufactured homes. As a result, when the mobile home park owner purchases the manufactured (mobile) home from the manufacturer to be installed in the mobile home park and leases it to a lessee, the purchase from the manufacturer is a tax-free purchase for resale. Tax on the receipts from the lease by the mobile home park owner of the manufactured (mobile) home located in the mobile home park to a lessee are reported and paid on Forms LSE-1 and LSE-3 as lease receipts are received. See Part 5: General Information for Form LSE-1.

Courtesy deliveries

What is a courtesy delivery?

A courtesy delivery occurs when an item is delivered to a purchaser by a dealer other than the selling dealer. A courtesy delivery is not a sale. The delivering dealer simply delivers the item as a courtesy to the purchaser. To be a courtesy delivery, the item that is delivered must originate from the selling dealer's inventory, not the delivering dealer's inventory.

Who is responsible for reporting the sales tax when there is a courtesy delivery?

For a sale for lease transaction in which the lessee's address for registration or titling purposes is in Illinois, when you are a selling dealer making the sale for lease and you are located in Illinois, you are responsible for filing Form ST-556-LSE and collecting and paying any sales tax due. The delivering dealer making the courtesy delivery is not responsible for reporting the sale.

What can happen when the delivering dealer reports the tax?

If you are an Illinois dealer making a courtesy delivery on behalf of an out-of-state selling dealer, you are not responsible for reporting the sale for lease. In this case, if the selling dealer is registered with IDOR, the selling dealer is responsible for filing Form ST-556-LSE and collecting and paying any sales tax due. If the selling dealer is not registered with IDOR, the purchaser must file Form RUT-25-LSE, Use Tax Return for Lease Transactions, and pay any use tax due.

If the tax was not properly reported and paid by the selling dealer, the selling dealer may be billed for tax, penalty, and interest. IDOR will bill the selling dealer for not reporting the transaction on Form ST-556-LSE even if the tax was reported and paid on time but in error by the delivering dealer.

The delivering dealer must file Form ST-556-LSE-X, Amended Transaction Return for Leases, to establish a claim for credit for the tax paid in error.

The customer may pay an incorrect amount of sales tax if the sales tax rate differs between the selling dealer's location and the delivering dealer's location.

Factory deliveries

Who is responsible for reporting the tax when the manufacturer delivers an item directly to the customer?

When you sell an item for lease to a customer (whether the item is already in your sales inventory or is factory ordered from the manufacturer), you are responsible for reporting the transaction on Form ST-556-LSE. You must report the transaction as the seller even if the manufacturer delivers the item directly to your customer.

If the delivery is made to an Illinois customer, you must report the transaction as a taxable sale and collect tax on the gross receipts from the sale.

If the delivery is made outside Illinois to an out-of-state customer, report the transaction as an exempt sale by checking Section 6, Box E on Form ST-556-LSE, and writing "Delivered Out-of-State." For more information on how to report tax-exempt sales, see Part 3.

If the item is a manufactured (mobile) home, you may have other tax considerations, depending upon whether the manufactured (mobile) home also is installed by the dealer. See the "Manufactured homes (formerly known as mobile homes)" section.

Off-site sales

How do I report off-site sales ("tent" sales)?

Occasionally you may hold a sales event, sometimes called a "tent" sale, at locations other than your normal place of business. Because your paper Form ST-556-LSE returns are preprinted with information specific to your place of business, and because the off-site location may be in a separate taxing jurisdiction (possibly with a sales tax rate different from the rate for your business location), it is important that you report off-site sales using the instructions provided in ST-23, How to Report Off-Site Sales on Form ST-556, Sales Tax Transaction Return, or Form ST-556-LSE, Transaction Return for Leases, available on our website at tax.illinois.gov. Complying with these instructions allows us to allocate the taxes you collect to the proper local government.

Trade-ins

Note: Trade-in credit is not allowed on many transactions reported on Forms ST-556-LSE and RUT-25-LSE. Before you claim a trade-in credit on Form ST-556-LSE or Form RUT-25-LSE, you must be certain that you are allowed to claim this trade-in credit. See the applicable instructions for the return you are filing to determine when a trade-in credit is allowed.

Note: For all sales and purchases occurring on or after January 1, 2020 up to and including December 31, 2021, the credit you could claim for a first division motor vehicle being traded in could not exceed \$10,000. Public Act (P.A.) 102-0353 removed the \$10,000 trade-in credit limit for sales and purchases made on or after January 1, 2022.

What is a qualified trade-in?

A qualified trade-in is an item that

- you accept to reduce the selling price (in part or in full) of the item sold;
- you are in the business of selling; and
- if sold at retail, including sales for lease, in Illinois, would be required to be reported on Form ST-556 or Form ST-556-LSE, as applicable.

Note: Trade-in credit is not allowed on Form ST-556-LSE if the selling price on Section 8, Line 1, is the amount due under the lease contract.

You are "in the business of selling" a particular kind of item if you hold yourself out to the public as being engaged in (or habitually engage in) selling such items. For example, if you are in the business of selling both automobiles and watercraft, you may claim a boat as a trade-in on the sale of an automobile. However, if you are in the business of selling only automobiles, you may not claim a boat as a trade-in on the sale of an automobile.

What situations prevent a trade-in from being qualified?

A trade-in is not qualified in the following instances:

- if you, as a dealer, are not in the business of selling the item offered in trade;
- if the item, if sold at retail, including sales for lease, in Illinois, would not be required to be reported on Form ST-556 or Form ST-556-LSE;
- if you, as a dealer, are the owner of the item traded in;
- if the item traded in was used in a transaction that occurred before the trade was offered but was not identified by written contract as an advance trade-in (for more information, see “What is an advance trade-in?” below);
- if a third-party owner offers the item as a trade-in on behalf of the purchaser, but the third-party owner is in the business of selling such items at retail; or
- in a sale for lease transaction, if the selling price reported in Section 8, Line 1, of Form ST-556-LSE consists of the amount due under the lease contract.

May I accept a trade-in of an item that is not considered a qualified trade-in?

Yes. You may choose to accept any item as a trade-in, even one that is not considered a qualified trade-in, to reduce the purchaser’s cost of the item sold. However, you may not use the value of or credit given for a non-qualified trade-in to reduce the amount subject to tax.

For example, you may accept the trade-in of a bicycle to which you have assigned a value of \$100 in order to reduce the purchaser’s cost of an automobile with a price of \$15,000, but you may not subtract the assigned value of the bicycle used as a trade-in from the selling price of the automobile to reduce the amount subject to tax because the bicycle is not a qualified trade-in.

Instead, you must charge the purchaser tax on the selling price of \$15,000. You should not report the trade-in in Section 5 or claim a trade-in credit in Section 8, Line 2, of Form ST-556-LSE.

What is the “value” of a qualified trade-in?

The value of a qualified trade-in is the amount of value assigned to the item without regard for any debt currently owed on the item. The value assigned is referred to as the “trade-in credit.”

For example, if a purchaser offers you an automobile as a qualified trade-in that you appraise at \$2,000 and the purchaser still owes \$500 on the automobile, the actual value or trade-in credit that you may use to reduce the amount subject to tax is \$2,000.

What is the “credit given” for a qualified trade-in?

The amount of credit given for a qualified trade-in is the value assigned to the item minus any cash payments you make to the purchaser. The credit given is referred to as the “trade-in credit.”

For example, if a purchaser offers you an automobile as a qualified trade-in that you appraise at \$2,000 and you give the purchaser a \$500 cash-back payment, the actual credit given or trade-in credit that you may use to reduce the amount subject to tax is \$1,500.

How do I use a qualified trade-in credit in a lease transaction?

In a lease transaction involving a qualified trade-in, you determine the amount subject to tax by subtracting the amount of trade-in credit in Section 8, Line 2, of Form ST-556-LSE from the selling price of the item in Section 8, Line 1, of Form ST-556-LSE. See “May I claim qualified trade-in credit on a leased item?” If you report a trade-in credit, you also must describe the actual qualified trade-in you used in Section 5 of Form ST-556-LSE.

May I claim qualified trade-in credit on a leased item?

In a sale for lease transaction, you may claim qualified trade-in credit and reduce the sales tax liability only when the selling price reported in Section 8, Line 1, of Form ST-556-LSE is the actual amount paid by the purchaser (lessor) for the leased item. A trade-in credit is not allowed in a sale for lease transaction if you must use the amount due under the lease contract as the selling price reported in Section 8, Line 1, of Form ST-556-LSE.

May I claim a trade-in of an item owned by someone (third party) other than the purchaser?

You may claim a trade-in credit on an item owned by someone other than the purchaser, provided the

third-party owner shows proof of ownership of the item offered as trade, assigns the item directly to you, and provides you with written authorization for the trade, specifying the item traded in, the item purchased, and the purchaser on whose behalf the trade-in is offered. Third-party trade-in authorizations, however, may not be used in conjunction with advance trade-in transactions. In addition, dealers, leasing companies, and other retailers of such items may not offer an item as a trade-in in a third-party transaction.

What trade-in credit documents am I required to keep?

You must retain in your records all of the supporting documentation that shows the details of how you applied each trade-in credit and, upon request, make this documentation available to IDOR for inspection or audit.

For documentation purposes, when a third-party owner offers the item for trade on behalf of a purchaser, you also must obtain and keep in your records written authorization from the third-party owner. The written authorization must specify the purchaser on whose behalf the trade-in is offered, the item traded, and the item purchased.

May I claim a trade-in after a transaction is complete and I have filed Form ST-556-LSE?

No. In order to claim a trade-in credit and reduce the amount subject to tax, the trade-in must have been offered or accepted at the time of the original transaction. You may not file Form ST-556-LSE-X, Amended Transaction Return for Leases, to claim a trade-in credit if the trade-in was not offered or accepted at the time of the original transaction.

May I claim a trade-in after I have filed Form ST-556-LSE but have erroneously failed to report the trade-in on the return?

Yes. If you failed to claim a trade-in credit on your original Form ST-556-LSE, you may file Form ST-556-LSE-X, provided you have documentation showing that a trade-in was actually offered at the time of the original transaction. In this case, you may file an amended return to report the trade-in and claim the trade-in credit to reduce the amount subject to tax.

Note: A trade-in credit is not allowed in a sale for lease transaction if you must use the amount due under the lease contract, as the selling price reported in Step 3, Line 1, of Form ST-556-LSE-X.

May I “split” the trade-in credit given for one item towards the sale for lease of more than one item?

Yes. You may use a trade-in credit given for one item traded in toward the sale for lease of more than one item as long as the trade-in and sales are recorded as a single transaction.

You must file a separate Form ST-556-LSE for each item sold. To apply the split trade-in credit, you may use as much of the trade-in credit as you want on each return, as long as the sum of the amounts reported as trade-in credit on both returns does not exceed the total amount of trade-in credit given. You also must describe the trade-in in Section 5 of Form ST-556-LSE.

You must cross-reference the trade-in by writing in the space after the heading of Section 5 of each Form ST-556-LSE the transaction number of each other Form ST-556-LSE on which you used the same trade-in.

Example:

You may use the trade-in credit of an automobile that you accept as a trade-in and that you have assigned a value of \$15,000 towards the sale of two automobiles with total prices of \$10,000 and \$7,000 each. You might apply \$10,000 of the \$15,000 trade-in credit on the ST-556 return of the automobile with the total price of \$10,000 and then the remaining \$5,000 of the trade-in credit on the other ST-556 return of the automobile with the total price of \$7,000.

May I accumulate “multiple” trade-in credits given for more than one item towards the sale for lease of only one item?

Yes. You may use multiple trade-in credits given for more than one item traded in toward the sale for lease of only one item as long as the trade-ins and sale for lease are recorded as a single transaction. To apply the trade-in credits, you must report in Section 8, Line 2, of Form ST-556-LSE, the sum of the values assigned to each trade-in you are using.

Note: Certain electronic filing methods may prevent you from entering multiple trade-ins on a single transaction, and you may be limited to filing a paper return to report multiple trade-ins.

You also must describe the trade-ins in Section 5 of Form ST-556-LSE. Attach a separate sheet to list the description of the additional trade-in when required to file a paper return.

Taxpayers filing Form RUT-25 or Form RUT-25-LSE also are able to combine credit from multiple motor vehicles being traded in for a single transaction. See the instructions for Form RUT-25-LSE for when trade-in credit is allowed.

What is an advance trade-in?

An advance trade-in is a transaction in which a purchaser trades in an item to you prior to the actual purchase of an item and is given an advance trade-in credit to use on a future purchase — provided the purchaser by written contract agrees to purchase one or more items from you within nine months of the date the advance trade-in is established. The written contract needs only to specify the purchaser's obligation to purchase within a nine-month period, not the make, model, or price of the item to be purchased.

How do I use an advance trade-in credit?

You use an advance trade-in credit in the same way as a regular trade-in credit by subtracting the amount of the advance trade-in credit from the selling price of the item sold in Section 8, Lines 1 and 2, of Form ST-556-LSE, and describing the trade-in in Section 5.

You may issue the advance trade-in credit to the purchaser in the form of either cash or credit. If the purchaser does not use the advance trade-in credit toward the purchase of an item from you within the nine-month period, the advance trade-in credit expires.

What documents am I required to keep for an advance trade-in?

The documentation you are required to keep in support of an advance trade-in transaction includes the written contract specifying the obligation to purchase within nine months and the expiration date and amount of the advance trade-in credit, a bill of sale for the item traded in, and a copy of the filed Form ST-556-LSE showing the sale for lease of an item and use of the advance trade-in credit.

Can a purchaser transfer advance trade-in credit to another purchaser?

No. Advance trade-in credits are not transferable to another purchaser. They are not permitted when the purchaser of an item is not the owner of the trade-in. In other words, you may not use advance trade-in credits in conjunction with third-party trade-ins.

May I combine “split” or “multiple” trade-in transactions with an advance trade-in?

Yes. As with standard trade-in credit, you may split or combine advance trade-in credit as needed, provided that all of the items traded in and sold are recorded as a single lease transaction, the purchaser is contractually obligated to purchase any items from you within nine months, and all applicable Form ST-556 or Form ST-556-LSE returns are properly completed and filed.

Chicago Home Rule Use Tax

What if I am selling an item from a business location in Cook County or the collar counties and my customer's address is in Chicago?

If your business location is in Cook, DuPage, Kane, Lake, McHenry, or Will County and the item will be titled or registered within the corporate limits of the city of Chicago (typically, the lessee's address as reported in Section 2 of Form ST-556-LSE), you must collect and pay an additional home rule use tax. This combined tax rate is preprinted in Section 8 of Form ST-556-LSE below Line 4 and must be reported on Line 4, not Line 5.

Note: Do not report the Cook County Home Rule Use Tax on Form ST-556-LSE. This tax is administered and collected directly by the Cook County Department of Revenue.

Other home rule use taxes

Should I report the use tax I collect for home rule units of local government other than Chicago on Form ST-556-LSE?

No. Do **not** report on Form ST-556-LSE the use tax you collect for home rule units of local government other than the city of Chicago.

However, if you are required to be registered with a home rule unit of local government to collect its home rule use tax, you should report the tax using whatever form the home rule unit provides. If you are not required to be so registered, the home rule unit may bill your customer directly. You should contact the appropriate home rule unit of local government for instructions on how the tax is administered.

Collecting other local use taxes

If the item reported on Form ST-556-LSE will be titled or registered in an area where tax has been imposed by the Regional Transportation Authority (RTA) or Metro-East Transit District (MED), the purchaser may owe additional tax. If your sales location is in the boundaries of one of these areas, the additional tax is already included in your combined tax rate. If, however, your sales location falls outside these boundaries, you are not required to collect any additional use tax, but you may do your customer the courtesy of collecting the additional tax so that the customer will not be billed for it later.

To determine the correct tax rate for a purchaser located in one of these tax districts, see our Tax Rate Finder, available on our website at tax.illinois.gov.

How do I collect and report Regional Transportation Authority (RTA) Use Tax?

If your sales location is in Cook, DuPage, Kane, Lake, McHenry, or Will County, the RTA tax is already included in your combined tax rate. If you make a sale for lease of an item from a location outside Cook, DuPage, Kane, Lake, McHenry, or Will County but the item will be titled or registered within any of these counties (typically, the lessee's address as reported in Section 2 on Form ST-556-LSE), your customer will owe an additional RTA Use Tax. You are not required to collect and pay this tax. However, if you choose to collect and pay this tax on your customer's behalf, you should multiply the amount in Section 8, Line 3, on Form ST-556-LSE by the applicable RTA Use Tax rate, and enter the result in Line 5. Also, enter the name of the county where the item will be titled or registered in Line 5a.

How do I collect and report Metro-East Mass Transit District (MED) Use Tax?

If your sales location is within any of the MED townships in Madison or St. Clair County, the MED tax is already included in your combined tax rate. If your sales location is not within any of the MED townships in Madison or St. Clair County but the item will be titled or registered within one of these MED townships in Madison or St. Clair County (typically, the lessee's address as reported in Section 2 on Form ST-556-LSE), your customer will owe an additional MED Use Tax. You are not required to collect and pay this tax. However, if you choose to collect and pay this tax on your customer's behalf, you should multiply the amount in Section 8, Line 3, on Form ST-556-LSE, by the MED Use Tax rate and enter the result in Line 5. Enter the appropriate county ("Madison County" or "St. Clair County") in Line 5a and the name of the city and township in which the item will be titled or registered in Lines 5b and 5c.

Selling price

What is included in the selling price on Form ST-556-LSE?

Selling price may be computed differently on Form ST-556-LSE than it is on Form ST-556. For a transaction reported on Form ST-556-LSE, depending on whether the motor vehicle and the lease term qualify (see the "How do I determine "selling price" on a leased vehicle?" section), "selling price" is either (1) the amount due under the lease contract, or (2) the actual amount paid by the purchaser (lessor) to the seller.

If the selling price used is the actual amount paid by the purchaser (lessor) to the seller, the selling price includes accessories, dealer preparation, federal excise taxes, freight, labor, rebates or incentives for which a dealer will be reimbursed, and documentary fees. Selling price does not include federal luxury tax. In general, any cost passed on to the customer as part of the sale of an item and for which gross receipts are received should be included in the selling price.

If the selling price is the amount due under the lease contract, you must include in the selling price the amount due at lease signing, plus the total amount of lease payments, and any charges factored into the lease contract, including, but not limited to the following:

- extended warranty;
- registration fees;
- title fees;
- negative equity;
- tax reimbursement collected from the lessee; and
- finance charges on the tax reimbursement.

In addition, if the selling price is the amount due under the lease contract, you must include in the selling price any deductions taken for the following:

- manufacturer's or other rebates; and
- cash down payments.

Finally, even if the following charges are included in the amount owed under the lease contract, they are excluded from the taxable selling price:

- a "disposition fee," if included in the lease contract, and
- amounts, if any, collected under Chicago's Personal Property Lease Transaction Tax

Note: As a general rule, in cases in which the selling price consists of the amount due under the lease contract, the amount to report as the "selling price" on the ST-556-LSE can be found on the lease contract in the box captioned "Total of Payments." Be sure, however, that all of the charges and deductions listed above are included, as well as any other necessary charges or deductions, before entering this amount as your selling price.

Rule of thumb: One way to check whether you have determined the correct tax on a sale for lease for which the "selling price" consists of the amount due under the lease contract is to multiply the amount in the "Total of Payments" box in the lease contract (minus the disposition fee and Chicago's Personal Property Lease Transaction Tax, if included) by the tax rate. The result should generally equal the amount of tax due.

See Part 2 of ST-9, A Guide for Reporting Sales Using Form ST-556, Sales Tax Transaction Return, for a discussion of items given as gifts or prizes, repossessed items, returned items, foreign customers and foreign commerce, and dealers' insurance settlements.

How do I collect a reimbursement of my tax liability from the lease customer?

It is important to note that Illinois does not impose a tax on lessees (lease customers) of titled and registered property leased for a period of more than one year. In a transaction in which an item of titled or registered property is sold and simultaneously leased for a period of more than one year, the retailer owes Retailers' Occupation Tax and the purchaser (leasing company) owes Use Tax. The lessee does not owe tax. The retailer and lessor may, however, make a private business decision to collect a reimbursement of their tax liability from the lease customer. This decision is outside of the jurisdiction of IDOR. To determine whether a retailer or lessor has properly reported and remitted tax on these sale for lease transactions, in accordance with the statute, IDOR will use the consideration received by the lessor pursuant to the lease contract, including amounts due at lease signing and all monthly or other regular payments charged over the term of the lease, and multiply that amount by the appropriate tax rate. As indicated above, the consideration received by the lessor (e.g., the taxable selling price) is typically the "Total of Payments" box on the lease contract (minus the "disposition fee" and Chicago Personal Property Lease Transaction Tax, if included in the lease).

Notwithstanding that the State of Illinois does not tax lessees in these transactions, as a courtesy to taxpayers, below is an example that may assist you in constructing a lease contract that both properly arrives at the amount of tax you owe on the transaction as well as fully reimburses you for your tax liability on the transaction. It is not required that you use this calculation. However, it is important to remember that, in the end, the amount of tax owed is equal to the total amount due under the lease contract multiplied by the tax rate.

Examples

The lease agreement for a qualifying motor vehicle that is being sold and simultaneously leased for a defined period of more than one year as part of the same transaction includes the following terms:

- An amount due at signing of \$5,000.
- Before calculating the reimbursement of tax, the dealer determines that the lease customer will owe a payment of \$500 each month for the next 36 months (e.g., \$18,000).
- The lease contract requires the lease customer to reimburse the tax owed by the dealer and leasing company.
- The combined tax rate is 8.25% (state and local taxes).

To construct a lease contract that both correctly calculates tax owed and fully reimburses the taxpayer from the lessee for the tax owed, you may use the following formula.

Tax Reimbursement Formula

1. Enter 1.000.	1.000
2. Enter the combined state and local tax rate as a decimal.	0.0825
3. Subtract Line 2 from Line 1. (1.000 - 0.0825)	0.9175
4. Divide Line 1 by Line 3 and round the total to 4 decimal places. (1.000 / 0.9175)	1.0899
5. Enter the total taxable amount of the lease before tax reimbursement calculation. (\$5,000 + \$18,000)	\$23,000
6. Multiply Line 5 by the percentage on Line 4. (\$23,000 X 1.0899)	\$25,068*
7. Multiply Line 6 by the tax rate decimal on Line 2. (\$25,068 X .0825)	\$2,068

In this case, the “Total of Payments” in your lease contract would be \$25,068 (not including any “disposition fee” or Chicago’s Personal Property Lease Transaction Tax amount, if applicable). This is because the increased monthly payment, which includes the reimbursement of tax by the lease customer, becomes part of the selling price on which the tax is calculated. Using the “rule of thumb” to confirm that the tax reimbursement formula works, multiply the end result by the tax rate: \$25,068 (“Total of Payments” reported on lease contract) x 0.0825 (tax rate) = \$2,068 (tax due).

The amount on Line 7 is the sales tax due if the lessor is not charging interest or a finance charge on the amount of the sales tax reimbursement it charges the lessee. If the lessor chooses to charge interest or a finance charge on the sales tax reimbursement, continue with Line 8.

Interest on Tax Reimbursement Formula

8. Enter the total amount of the interest or finance charge the dealer will charge on the amount on Line 7**.	\$197
9. Enter the amount from Line 5.	\$23,000
10. Add Lines 8 and 9. (\$197 + \$23,000)	\$23,197
11. Enter the amount from Line 4.	1.0899
12. Multiply line 10 by Line 11. (\$23,197 X 1.0899)	\$25,282***
13. Multiply line 12 by the tax rate decimal on Line 2. (\$25,282 X 0.0825)	\$2,086

The amount on Line 13 of the above worksheet is the sales tax due when interest or a finance charge is imposed on the sales tax reimbursement the lessor charges to the lessee.

Using the rule of thumb to confirm that the tax formula works, multiply the end result by the tax rate: \$25,282 (“Total of Payments” reported on lease contract) x .0825 (tax rate) = \$2,086 (tax due).

** This formula only works if you actually use this as the “Total of Payments” amount in the lease contract (not including any “disposition fee” or Chicago’s Personal Property Lease Transaction Tax amount, if applicable). Remember, tax due equals the lease contract amount (minus allowable deductions) multiplied by the rate.*

***For this example: the interest on a tax reimbursement of \$2,068 (the amount of tax owed per Line 7) at 6% interest for 36 months would equal \$197.*

**** This formula only works if you actually use this as the “Total of Payments” amount in the lease contract (not including any “disposition fee” or Chicago’s Personal Property Lease Transaction Tax amount, if applicable). Remember, tax due equals the lease contract amount (minus allowable deductions) multiplied by the rate. In this case, the “Total of Payments” in your lease contract would be \$25,282 (not including any “disposition fee” or Chicago’s Personal Property Lease Transaction Tax amount, if applicable). Therefore, this is the amount to be reported as the selling price on Form ST-556-LSE. This equals \$23,197 (basic lease payment plus interest on tax reimbursement) + \$2,086 (tax) = \$25,282 (“Total of Payments” reported on lease contract). The end result here is that tax due equals \$2,086.*

Items as gifts or prizes, repossessed items, returned items, foreign customers and foreign commerce, and dealers' insurance settlements

See Part 2 of ST-9, A Guide for Reporting Sales Using Form ST-556, Sales Tax Transaction Return, for a discussion of items given as gifts or prizes, repossessed items, returned items, foreign customers and foreign commerce, and dealers' insurance settlements.

Part 3: Tax-Exempt Sales

This part provides a detailed description of each of the exemption categories shown in Section 6 on Form ST-556-LSE. It is important for you to understand and properly document exempt sales. If you report a sale as exempt from Illinois sales tax and we then determine this sale to be taxable, we will assess either you or the purchaser for tax, penalty, and interest.

Do I still need to file a return if the transaction is exempt and no tax is due?

Yes. You must file a return for every transaction you make, even exempt sales with no tax due.

Is there a penalty for not filing a return to report an exempt transaction?

Yes. If you are a retailer required to file a transaction return (ST-556 or ST-556-LSE), you owe a nonfiling of a transaction return penalty for each instance in which you make a sale for which no tax is due but you fail to properly report that sale on or before the due date to IDOR using Form ST-556, Form ST-556-LSE, or Form ST-556-D. See CA 2017-17, available on our website at tax.illinois.gov.

Form ST-556-LSE Box A: Lease to non-Illinois resident

What qualifies for this exemption?

You may be able to claim an exemption if you leased a motor vehicle or trailer to a nonresident purchaser if the nonresident purchaser took possession of the item in Illinois and

- you issued a drive-away permit for the item sold; or
- the purchaser transferred out-of-state license plates to the item sold.

Note: Watercraft, manufactured (mobile) homes, and all-terrain vehicles (ATVs) cannot be issued drive away permits and are not exempt when a nonresident takes possession in Illinois.

How do I report this exemption on Form ST-556-LSE?

To properly claim this exemption, you must mark Section 6, Box A, of Form ST-556-LSE. When you claim this exemption on Form ST-556-LSE, you still must provide the selling price and trade-in amount, if allowed, on Section 8, Lines 1 and 2, respectively.

If you issued a drive-away permit or if the purchaser transferred current out-of-state license plates, you must enter the drive-away permit number or the license plate number and the two-letter state abbreviation in the spaces provided in order for this exemption to be allowed by IDOR.

6 Exempt or lease to a nonresident - If so, check the correct box below, **and** see instructions for Section 8.

☒ **A** Lease to non-Illinois resident - **See instructions.** Drive-away permit/License plate no. DA123456 State WI

Note: The rules about whether a nonresident purchaser exemption can be claimed that apply to sales reported on Form ST-556 do not apply in a lease transaction reported on Form ST-556-LSE. Rather, all properly documented drive-away leases to non-Illinois residents are exempt from Illinois sales tax.

Are there any special considerations for this exemption?

Note to retailers of watercraft, aircraft, and manufactured (mobile) homes: Illinois law does not provide for the use of an out-of-state license plate or registration or the use of a drive-away permit as authority to exempt from tax the receipts from sales of watercraft, aircraft, or manufactured (mobile) homes when a nonresident purchaser takes possession or delivery of these items in Illinois. Sales of watercraft are taxable, even when sold as part of a boat/trailer package.

What do I retain in my records to document this exemption?

Retain in your records a copy of Form ST-556-LSE reporting the exempt sale for lease. If the nonresident lease customer transferred current out-of-state license plates to the item sold, also retain a copy of the vehicle registration for which the out-of-state plates are issued. You also must obtain from the customer a signed certification documenting the customer's eligibility for the nonresident purchaser exemption. As a condition of claiming the nonresident purchaser exemption, your customers must certify that they are not residents of Illinois and, at your request, must provide the information required to complete this certification. See ST-588, Nonresidency Exemption Certification for Sales and Leases of Motor Vehicles and Trailers, available on our website at tax.illinois.gov. You are responsible for obtaining this certification and must retain it in your records as proof that no tax was due on the sale of the specified item. In addition to this certification, you must retain in your records evidence to support the customer's claim of nonresidency (e.g., out-of-state driver's license).

Form ST-556-LSE Box B: Lease for use as farm implement or lease of ready-mix concrete truck

What sales qualify for this exemption?

You may claim an exemption if you sell for lease an item to be used primarily in production agriculture. Sales for lease of farm machinery and equipment qualify only if the item to be used as farm machinery or equipment will not be titled and registered for highway use, or if the item will be registered for exempt plates only.

Note: ATVs may qualify for the farm machinery and equipment exemption if they are used primarily (e.g., more than 50% of the time) in production agriculture activities, such as pulling sprayers while they apply chemicals to fields or collecting and mapping soil samples. The use of ATVs for farm transportation or recreation purposes does not constitute production agriculture.

You also may claim an exemption if you sell for lease a ready-mix concrete truck to be used primarily in the manufacture of tangible personal property for wholesale or retail sale or lease. Sales for lease of ready-mix concrete trucks and truck chassis that are to be converted to ready-mix concrete trucks are exempt from tax as manufacturing machinery and equipment (MM&E) when used primarily in the manufacturing or assembling of tangible personal property for wholesale or retail sale or lease.

Note: Only ready-mix concrete trucks qualify for the MM&E exemption, and they only qualify when used primarily in the manufacture of tangible personal property for wholesale or retail sale or lease. No other type of item, including concrete pumper trucks, qualifies, and primary use of a ready-mix concrete truck for something other than the manufacture of tangible personal property for wholesale or retail sale or lease will disqualify the ready-mix concrete truck.

How do I report this exemption on Form ST-556-LSE?

When you claim this exemption on Form ST-556-LSE, you still must provide the selling price in Section 8, Line 1, and the trade-in amount, if allowed, in Section 8, Line 2.

To properly claim this exemption, you must check Section 6, Box B, of Form ST-556-LSE.

6 Exempt or lease to a nonresident - If so, check the correct box below, **and** see instructions for Section 8.

☒ **B** Lease for use as farm implement or lease of ready-mix concrete truck

Are there any special considerations for this exemption?

The farm machinery and equipment exemption applies only to items of farm machinery and equipment, either new or used, certified by the purchaser to be used primarily for production agriculture. The exemption excludes most motor vehicles required to be registered pursuant to the Illinois Vehicle Code. Registered vehicles other than motor vehicles may qualify for the exemption if they are used primarily in production agriculture rather than used in transportation (e.g., transporting livestock to slaughter or crops) or other nonexempt activities.

Production agriculture is the raising of or the propagation of livestock, crops for sale for human consumption, crops for livestock consumption, and production seed stock grown for the propagation of feed grains and the husbandry of animals or for the purpose of providing a food product. The transport of crops and animal food products and the transport of animals (e.g., for slaughter and processing) are not considered to be production agriculture. Specifically, trailers used in these activities do not qualify for the farm machinery and equipment exemption. See CA 2016-16, available on our website at tax.illinois.gov.

What do I retain in my records to document this exemption?

Retain in your records a copy of the Form ST-556-LSE reporting the exempt sale. Also retain in your records a properly completed Form ST-587, Equipment Exemption Certificate, or a certification by the lease customer stating that the item will be used primarily in production agriculture or in state or federal agricultural programs, or that the item will be used primarily in the manufacturing or assembling of tangible personal property for wholesale or retail sale or lease, as appropriate.

Form ST-556-LSE Box C: Lease to tax-exempt governmental body

What qualifies for this exemption?

You may claim an exemption if you sold an item for lease to a lessor who leases the property, under a lease of one year or longer executed or in effect at the time of the purchase, to a governmental body that has been issued an active tax exemption identification number by IDOR.

To qualify for this exemption on a sale for lease transaction, the governmental body must have an active Sales Tax exemption "E" number issued by IDOR. This number will begin with the letter "E," followed by 8 digits (e.g., E-99999999).

How do I report this exemption on Form ST-556-LSE?

When you claim this exemption on Form ST-556-LSE, you still must provide the selling price and trade-in amount, if allowed, on Section 8, Lines 1 and 2, respectively.

To properly claim this exemption, you must check Section 6, Box C, of Form ST-556-LSE and enter in the space provided the lessee's active Illinois Sales Tax exemption "E" number.

6 Exempt or lease to a nonresident - If so, check the correct box below, **and** see instructions for Section 8.

☒ **C** Lease to tax-exempt governmental body - Tax-exempt no. E- 9999-9999

You must verify that the lease customer's name on Form ST-556-LSE and the applicant's name on the application for title or registration to the appropriate agency of Illinois state government is the same as the name of the governmental body to which our tax exemption number was issued.

In order for a lease transaction to qualify, the following conditions must be met:

- the governmental body (lessee) must have an active Illinois Sales Tax exemption "E" number issued by IDOR;
- the lease must be for a period of more than one year; and
- the lease must be in effect or executed at the time of the sale by you to the lessor or at the time of removal from inventory if you are both the dealer and the lessor.

Note: The sale of an item to a lessor who will lease the item to any exempt organization other than a governmental body is taxable.

What do I retain in my records to document this exemption?

Retain in your records a copy of the Form ST-556-LSE reporting the exempt sale. To document the exemption, you must request from the lease customer and retain in your records either

- a copy of the customer's exemption certificate issued by IDOR; or
- the purchaser's "E" number. (In this case, before completing the transaction, you should verify this number using MyTax Illinois. Go to mytax.illinois.gov, select "Businesses," and then select "Sales Tax Exemption Number Validation.")

Form ST-556-LSE Box D: Lease to an interstate carrier (for hire for use as rolling stock)

What qualifies for this exemption?

Items sold for lease primarily to haul persons or commodities for hire in interstate commerce may qualify for the rolling stock exemption.

To qualify for the rolling stock exemption,

- the motor vehicle or trailer must be used to transport persons or property for hire,
- the purchaser must certify that the motor vehicle or trailer will be utilized by an interstate carrier for hire who holds an active USDOT number with the company operation listed as “interstate” and the operation classification listed as “authorized for hire,” “exempt for hire,” or both “authorized for hire” and “exempt for hire,” * and
- for motor vehicles, the gross vehicle weight rating must exceed 16,000 pounds.

* The second item above does not apply to a motor vehicle or trailer used at an airport to support the operation of an aircraft moving in interstate commerce, as long as the motor vehicle or trailer otherwise qualifies under the above criteria.

Who may claim a rolling stock exemption?

To claim a rolling stock exemption, you must be an owner, lessor, or shipper purchasing tangible personal property that will be utilized by interstate carriers for hire for use as rolling stock moving in interstate commerce.

How do I report this exemption on Form ST-556-LSE?

When you claim an exemption for a sale for lease to an interstate carrier for use as rolling stock, you must provide the selling price in Section 8, Line 1, of Form ST-556-LSE and the trade-in amount, if allowed, in Section 8, Line 2. To properly claim this exemption, you must check Section 6, Box D, and enter the certificate of authority number.

6 Exempt or lease to a nonresident - If so, check the correct box below, **and** see instructions for Section 8.

☒ **D** Lease to an interstate carrier for hire for use as rolling stock - Certificate of authority no. 1234567890

How do I report sales for lease of limousines on Form ST-556-LSE?

For sale for leases of qualifying limousines operated by carriers who do not require a certificate of authority number, you should enter instead “limousine” in the space provided. Only limousines that are first division motor vehicles may qualify for the rolling stock exemption.

How do lessors of other vehicle types, such as aircraft or watercraft, qualify for a rolling stock exemption?

To claim a rolling stock exemption on aircraft, watercraft, limousines, and rail carrier items, the lessor must indicate the method by which the item leased qualifies for the exemption. Lessor’s claiming the rolling stock exemption on aircraft, watercraft, limousines, and rail carrier items must qualify for the exemption using specific usage tests (generally, trips or miles), and at the time of lease, they must identify which method of qualifying will be used:

- Aircraft and watercraft must carry persons or property for hire in interstate commerce for more than 50 percent of their total trips or miles/hours in each 12-month period.
- Limousines must carry persons or property for hire in interstate commerce for more than 50 percent of their total trips or miles in each 12-month period.
- Rail carrier items must be used as rolling stock to haul persons or property for hire in interstate commerce on a regular and frequent basis.

Lessors of aircraft, watercraft, limousines, and rail carrier items must certify their eligibility for the rolling stock exemption using Form RUT-7-A Rolling Stock Certification for Aircraft, Watercraft, Limousines, and Rail Carrier Items. At the time the item is purchased for lease, the lessor must indicate the “trips” or “mileage” method (except for rail carrier items). If the lessor does not indicate the method of qualification, we will consider the lessor to have chosen the mileage method. Form RUT-7-A may also be used to claim a rolling stock exemption on repair and replacement parts for qualifying aircraft, watercraft, limousines, and rail carrier items.

For additional information on the rolling stock exemption, see 86 Ill. Adm. 130.340.

Are there any special considerations for this exemption?

It is not only the item's type that determines whether the item qualifies for use as rolling stock, but also how the item is used by a qualifying interstate carrier. You should make your customers aware that only those qualifying items specifically used as rolling stock will qualify for this exemption.

Items do not qualify as rolling stock when they are used only

- to transport company officers, employees, customers, or others not for hire (even if these persons cross state lines);
- to transport property that a business owns or is selling and delivering to customers (even if the items cross state lines); or
- as support vehicles (other than those specifically used for “escort” service) when the vehicles do not haul persons or commodities for hire in interstate commerce.

What do I retain in my records to document this exemption?

Retain in your records a copy of the Form ST-556-LSE reporting the exempt sale for lease, and Form ST-556-R, if applicable. You do not need to attach Form RUT-7 or RUT-7-A to your Form ST-556-LSE when you file the return, but you must keep a properly completed Form RUT-7 or RUT-7-A in your records to document that the sale for lease qualifies as tax exempt. Unless requested, do not send Form RUT-7 or Form RUT-7-A directly to IDOR.

Form ST-556-LSE Box E: Other

Mark this box if you sell for lease an item that qualifies as tax exempt but does not fit any other category. Describe your exempt transaction. Examples of other exempt transactions that may qualify are the following:

- delivered outside of Illinois
- delivered outside of the United States
- aircraft fly away;
- warranty replacements.

Delivered outside of Illinois

What sales for lease qualify for this exemption?

Sales for lease of items that you deliver or cause to be delivered to a customer in another state are exempt from tax as sales for lease in interstate commerce.

How do I report this exemption on Form ST-556-LSE ?

When you claim this exemption on Form ST-556-LSE, you still must provide for every sale for lease the selling price in Section 8, Line 1, and the trade-in amount, if any, in Section 8, Line 2.

To properly claim this exemption, you must check Section 6, Box E, and enter in the space provided “Delivered Out of State.”

6 Exempt or lease to a nonresident

If so, check the correct box below, **and** see instructions for Section 8.

☒ E Other (describe) Delivered out of state

What do I retain in my records to document this exemption?

Retain in your records a copy of the Form ST-556-LSE reporting the exempt sale for lease. When you deliver an item to your customer in another state (e.g., driving your customer's automobile to him or her), you must retain in your records a statement signed and dated by the recipient showing the out-of-state customer's name and the address at which the delivery was accepted.

When you hire a common or contract carrier to deliver the item to your customer in another state, you must retain in your records a bill of lading documenting the transportation of that item outside Illinois.

Delivered outside of United States

What sales for lease qualify for this exemption?

Sales for lease of items you deliver to a freight forwarder who will arrange for the item to be delivered outside the United States are exempt from tax as sales in foreign commerce.

How do I report this exemption on Form ST-556-LSE?

When you claim this exemption on Form ST-556-LSE, you still must provide for every sale for lease the selling price in Section 8, Line 1, and the trade-in amount, if any, in Section 8, Line 2.

To properly claim this exemption, you must check Section 6, Box E, of Form ST-556-LSE and enter in the space provided "Delivered to Freight Forwarder."

5 Exempt or lease to a nonresident

If so, check the correct box below, **and** see instructions for Section 8.

☒ E Other (describe) Delivered to Freight Forwarder

What do I retain in my records to document this exemption?

Retain in your records a copy of the Form ST-556-LSE reporting the exempt sale for lease. Also retain in your records documentation, such as a bill of lading, to support the delivery of the item to the freight forwarder.

Aircraft Fly Away

What qualifies for this exemption?

Sales for lease of aircraft that will not be registered or based in Illinois after the sale for lease are exempt from tax, provided the aircraft leaves this State within 15 days after the later of either the final billing for the sale for lease of the aircraft or the approval for return to service, completion of the maintenance record entry, and completion of the test flight and ground test for inspection.

How do I report this exemption on Form ST-556-LSE?

When you claim this exemption on Form ST-556-LSE, you still must provide for every sale for lease the selling price in Section 8, Line 1, and the trade-in amount, if any, in Section 8, Line 2.

To properly claim this exemption, you must check Section 6, Box E, of Form ST-556-LSE and enter "Aircraft fly away" in the space provided.

6 Exempt or lease to a nonresident

If so, check the correct box below, **and** see instructions for Section 8.

☒ E Other (describe) Aircraft fly away

What do I retain in my records to document this exemption?

Retain in your records a copy of the Form ST-556-LSE reporting the exempt sale for lease and Form RUT-60, Certification For Aircraft Exemption. You must also retain in your records documentation to verify that the aircraft sale qualifies for a tax exemption.

Warranty Replacements

What qualifies for this exemption?

The replacement of a titled or registered item as a condition of a warranty agreement is exempt from tax because no additional sale for lease has taken place.

How do I report this exemption on Form ST-556-LSE?

When you claim this exemption on Form ST-556-LSE, you still must provide for every sale for lease the selling price in Section 8, Line 1, and the trade-in amount, if any, in Section 8, Line 2.

To properly claim this exemption, you must check Section 6, Box E, of Form ST-556-LSE and enter in the space provided "Warranty Replacement."

6 Exempt or lease to a nonresident

If so, check the correct box below, **and** see instructions for Section 8.

☒ E Other (describe) Warranty Replacement

Part 4: Step-by-Step Instructions for Form ST-556-LSE

For step-by-step instructions for Form ST-556-LSE, please refer to the [ST-556-LSE Transaction Return for Leases Instructions](#).

Part 5: General Information for Form LSE-1

Who must file Form LSE-1?

You must complete Form LSE-1, Tax Return for Vehicle Leasing Companies,

- along with Form LSE-2, Original Motor Vehicle Lease Information, if you offer for lease for a period of longer than one year a qualifying motor vehicle, titled or registered in Illinois, and under this lease the customer pays additional reportable amounts that were not included in the original selling price of the motor vehicle at the start of the lease; or
- along with Form LSE-3, Lease/Rental Payments for Certain Titled or Registered Property if you had receipts for leases or rentals from the following titled or registered property:
 - i. trailers, other than semitrailers as defined in Section 1-187 of the Illinois Vehicle Code, that are required to be registered with an agency of this State; and
 - ii. items that are required to be titled with an agency of this State but not required to be registered with an agency of this State, such as all-terrain vehicles (“ATVs”), off-road motorcycles, and manufactured (mobile) homes located in a mobile home park.

Who must file Form LSE-2?

You must complete Form LSE-2, Original Motor Vehicle Lease Information, when you file Form LSE-1, Tax Return for Vehicle Leasing Companies, or Form LSE-1-X, Amended Tax Return for Vehicle Leasing Companies, if you offer for lease for a period of longer than one year a qualifying motor vehicle, titled or registered in Illinois, and under this lease the customer pays additional reportable amounts that were not included in the original selling price of the motor vehicle at the start of the lease.

Who must file Form LSE-3?

You must complete Form LSE-3, Lease/Rental Payments for Certain Titled or Registered Property, when you file Form LSE-1, Tax Return for Vehicle Leasing Companies, or Form LSE-1-X, Amended Tax Return for Vehicle Leasing Companies, if you had receipts for leases or rentals of the following titled or registered property:

- i. trailers, other than semitrailers as defined in Section 1-187 of the Illinois Vehicle Code, that are required to be registered with an agency of this State; or
- ii. items that are required to be titled with an agency of this State but not required to be registered with an agency of this State, such as all-terrain vehicles (“ATVs”), off-road motorcycles, and manufactured (mobile) homes located in a mobile home park.

Forms LSE-1, LSE-2, and LSE-3 must be submitted electronically using MyTax Illinois at mytax.illinois.gov. For additional information, see [Form LSE-1](#), [Form LSE-2](#), and [Form LSE-3](#) Instructions, available on our website at tax.illinois.gov.



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