



This Week in State Tax (TWIST)

March 31, 2025



Illinois: Vehicle Leasing Company Responsible for Chicago Lease Tax, Appellate Court Holds

An Illinois appellate court recently addressed three issues involving a vehicle financing company's obligation to collect and remit Chicago's Personal Property Lease Transaction Tax (lease tax) and Use Tax for Titled Personal Property (use tax) on leased vehicles it financed. Chicago imposes the lease tax on the lease or rental of personal property used in Chicago or on the privilege of using personal property in Chicago that has been leased or rented outside Chicago. The use tax is imposed the use of titled personal property in Chicago when the property is purchased at retail.

The taxpayer, an automobile financing company, took assignments of motor vehicle leases from independent automobile dealers that operated inside and outside Chicago and purchased the vehicles being leased from the dealers. The taxpayer required dealers to enter into "Master Lease Agreements," which governed the terms of the lease transactions, including the use of the taxpayer's "SmartLease" form laying out the vehicle's value, license and registration fees, other taxes and fees due, monthly lease payments, the amount of the capitalized cost reduction (CCR) payments (i.e., downpayments), and the taxpayer's rights to the first month's payment. The dealer assigned all its rights, title, and interests in the subject vehicles to the taxpayer. The Chicago Department of Finance audited the taxpayer and assessed taxes for failing to remit certain lease and use taxes. After an unsuccessful protest before an ALJ of the City Office of Administrative Hearings and a state trial court, the taxpayer appealed to the Appellate Court of Illinois, First District.

The primary issues before the court were: (1) was the taxpayer or the vehicle dealer responsible for remitting lease taxes on CCR payments; (2) were lease taxes on CCR payments for vehicles leased outside Chicago, but later used in the city (Move-In vehicles), to be prorated for the period following the move; and (3) could the use tax be imposed on Move-In vehicles. The court first agreed with the ALJ that the taxpayer was responsible for remitting the lease tax on CCR payments collected by the dealer from the customer. The court held that the CCR was clearly subject to the lease tax, and that the taxpayer fully controlled all aspects of the lease transaction once it was chosen to provide financing. In addition, the taxpayer was the ultimate beneficiary of the CCR payments as they were credited to the taxpayer in calculating the price it paid for the subject vehicles, and the taxpayer was clearly the lessor when the CCR payment was credited against the purchase price, thus making it the party responsible for taxes on the CCR payments.

Next, the Court reversed the assessment of prorated lease taxes on CCR payments for Move-In vehicles

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agreeing with the ALJ that the tax ordinance did not authorize prorated tax remittance for payments made before the tax obligation was triggered by the vehicle's use in Chicago. Since the CCR payments were made at the inception of the lease, the Court determined that the City did not have authority to prorate lease taxes on the CCR payments for Move-in vehicles. Last, the Court upheld the imposition of use tax on Move-In leased vehicles. Agreeing with the ALJ, the Court noted that the use tax is triggered not by the purchase of the vehicle, but by its use in the city. Therefore, when Move-In leased vehicles are registered in the Chicago, use tax obligation applies to lease payments made from the time of registration until the lease term ends. Contact [Drew Olson](#) for more information on [Ally Financial, Inc. v. Chicago Department of Administrative Hearings](#).

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