

■ New Sales and Use Tax Exemptions for Certain Leased Property

TO: Lessors

Certain items purchased for lease on or after January 1, 1996, may be exempt from sales and use tax. Qualifying purchases include certain types of equipment to be leased to hospitals and any type of property to be leased to government organizations.

How do I determine if I am liable for tax on the equipment I purchase for lease to hospitals?

You may purchase **computers and communications equipment** tax-free if

- you are leasing these items to a hospital that has been issued an active sales tax exemption identification number (e.g., E 9999-9999-01) by the department,
- you are leasing these items for a period of one year or longer, and
- the lease is in effect or executed
 - at the time of the purchase for items purchased in Illinois, or
 - at the time the property is brought into the state for items purchased outside Illinois.

You may purchase **any other equipment** tax-free if

- you are leasing the equipment to a hospital that has been issued an active sales tax exemption identification number by the department,
- the hospital will use the equipment in the diagnosis, analysis, or treatment of hospital patients,
- you are leasing the equipment for a period of one year or longer, and
- the lease is in effect or executed
 - at the time of the purchase for items purchased in Illinois, or
 - at the time the property is brought into the state for items purchased outside Illinois.

How do I determine if I am liable for tax on items I purchase for lease to government organizations?

You may purchase items tax-free if

- you are leasing the items to a government organization that has been issued an active sales tax exemption identification number by the department,

- you are leasing the items for a period of one year or longer, and
- the lease is in effect or executed
 - at the time of the purchase for items purchased in Illinois, or
 - at the time the property is brought into the state for items purchased outside Illinois.

How do I report the purchase of a vehicle from out-of-state that I will lease to a government organization?

You must report your purchase on Form RUT-25, Motor Vehicle Use Tax Return. First, you must check Box 1 in Section D and write the government organization's sales tax exemption identification number on the line provided. Then, you must complete Lines 1, 2, and 3 in Section E.

What records must I keep to support my tax-free purchase of these items?

Your records must include

- the name and address of the lessee (hospital or government organization),

- the lessee's sales tax exemption identification number,
- a description of the items being leased,
- the date the lease was executed, and
- the period of the lease.

Am I ever liable for use tax on these items?

Yes. This exemption from use tax lasts only for the period that the property is leased in a qualifying manner.

You will owe use tax based on the fair market value of the property at the time a qualifying lease ends and you become the user. You will also owe use tax if we determine that property was not leased in a qualifying manner.

TO: Retailers and Servicepersons

Certain items you sell to your customers on or after January 1, 1996, may be exempt from sales and use tax. Qualifying purchases include certain types of equipment that are purchased to be leased to hospitals and any type of property that is purchased to be leased to government organizations.

The requirements that lessors must meet in order to purchase property tax-free are described on the front side of this bulletin.

What records must I keep when I sell property to a purchaser that claims one of these exemptions?

If you sell items to a purchaser that claims one of these exemptions, you must obtain from the purchaser a certification stating

- the purchaser's name, address, and Illinois business tax (IBT) number,
- the purchaser's signature and date of signing,
- a description of the items being purchased,
- the name and address of the hospital or government organization that will lease the items,
- the sales tax exemption identification number (*e.g.*, E 9999-9999-01) of the hospital or government organization,
- the date the lease was executed, and
- the period of the lease.

How do I report these sales on my Form ST-1?

First, you must include the receipts from these sales on Line 1 of your Form ST-1, Sales

and Use Tax Return. Then, you must write the receipts from the sale of the property on Item 16 of Form ST-1, Worksheet for Line 2. Describe the type of deduction on the line provided. Finally, you must include the amount from Item 16 in the total deductions you write on Line 2 of your ST-1.

If I sell a vehicle to a lessor who will lease it to a government organization, how do I report this sale?

If you are reporting the sale on Form ST-556, Sales Tax Transaction Return, you must check Box C in Section 5 and write the government organization's sales tax exemption identification number on the line provided. Then you must complete Lines 1 and 2 in Section 6.

Note: If you sell a vehicle to a lessor who will lease it to an exempt organization other than a government organization, the sale is taxable.

Questions?

If you have questions or need more information, please call or write us. Our telephone numbers and address are printed at the bottom of this bulletin.



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