



# Sales and Use Tax Exemptions for Certain Leased Property

## Informational Bulletin

September 2001

**Glen L. Bower**  
Director of Revenue

### For information or forms...

- ◆ Call us at:  
1 800 732-8866 or  
217 782-3336
- ◆ Call our TDD  
(telecommunications device  
for the deaf) at:  
1 800 544-5304
- ◆ Write us at:  
Illinois Department of Revenue  
P.O. Box 19044  
Springfield, IL 62794-9044
- ◆ Visit our Web site at:  
[www.revenue.state.il.us](http://www.revenue.state.il.us)
- ◆ Call  
"Illinois Tax Fax," our  
fax-on-demand service, at:  
217 785-3400
- ◆ Call  
our 24-hour  
Forms Order Line at:  
1 800 356-6302

### To:

### Lessors, Retailers, and Servicepersons

For **lessors**, certain items that you purchase for lease on or after August 2, 2001, may be exempt from sales and use tax. For **retailers**, certain items you sell to your customers on or after August 2, 2001, may be exempt from sales and use tax. Qualifying items include certain types of equipment to be leased to hospitals and any type of property to be leased to government organizations.

This same exemption was first allowed for items purchased or sold on or after January 1, 1996 through December 31, 2000. On January 1, 2001 this exemption expired. For items purchased or sold on or after January 1, 2001 through August 1, 2001, this exemption was **not** in effect.

For items purchased or sold on or after August 2, 2001, this exemption is being reinstated.

### To Lessors:

### 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 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 the equipment 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 these items for a period of one year or longer, and
- ◆ the lease is in effect or executed
  - at the time of 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 the property was not leased in a qualifying manner.

### **What if my lease expired during the time period this exemption was not in effect?**

If a renewal of the lease was in effect at the time the exemption expired, you do not owe use tax. If no renewal was in effect at that time, you owe use tax on the fair market value of the property at the end of the lease.

### **If I claimed this exemption during the time period it was not in effect, how do I correct this?**

You must file the appropriate amended return and pay any tax, penalty, and interest due.

### **To Retailers and Servicepersons:**

### **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 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 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 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.

### **If I allowed this exemption during the time period it was not in effect, how do I correct this?**

You must file the appropriate amended return and pay any tax, penalty, and interest due.