

AUTOMOTIVE SALES, USE & LEASE TAX GUIDE

NOVEMBER 2017

PREPARED BY THE
Alabama Department
of Revenue



IN COOPERATION WITH



Guidelines for Automobile Dealers

Sales Tax

The state sales tax on “automotive vehicles” is 2 percent of the gross proceeds of the sale. In addition to light duty vehicles, an “automotive vehicle” also includes a truck, truck trailer, or house trailer; motorcycle; certain boats; and other items. (Code of Alabama, Section 40-23-2(4)) The same rules apply to new and used vehicles.

When a used automotive vehicle is taken in trade as a credit or partial payment on the sale of a new or used automotive vehicle, sales tax is levied on the net difference. Other items exchanged for full or partial payment are taxable. **(Rule [810-6-1-.22](#))** When a trade-in vehicle is resold, it is subject to sales tax. **(Rule [810-6-2-.104.02](#))** Trade in provisions do not apply when a rental or leased vehicle is exchanged for a new or used vehicle.

If a trade-in exceeds the selling price of the vehicle being purchased, the dealer may not add the amount of the trade-in allowance to its tax return as a deduction on the sales tax return. **(Rule [810-6-1-.22](#))**

If a dealer allows a trade in on a wholesale, exempt or out-of-state sale, the amount should not be deducted on the sales tax return.

When an automotive vehicle is removed from the state within 72 hours or delivered out of state, special rules apply as outlined later in this guide.

Other items sold at a dealership such as parts and accessories are generally taxed at the full state rate of 4 percent. Exemptions will be outlined later in this guide.

General Sales Tax Collection Issues

Sales tax must be added to the purchase price and collected from the retail customer. It is illegal to refund or offer to refund all or any part of the amount collected, or to absorb or advertise the absorption or refund of the tax collected. (Code of Alabama 40-23-26(b) and **Rule [810-6-4-.20](#)**) For purposes of the sales tax law, a retailer may state or advertise the sales price without reference to tax, separately state the sales price and amount of sales tax due, or sales price “plus tax” or “exclusive of tax.” A retailer must maintain in his records the sales price and sales tax collected separately stated and furnish that information to the customer upon request.

A separate rule by the Motor Vehicle Division requires that retailers separately state the amount of state, county, and city tax collected.

Most cities and counties also levy sales, use, and lease taxes patterned after state law. Some are collected by the Alabama Department of Revenue, while other localities collect the taxes themselves or hire third-party firms to do so. Dealers must also collect city and county taxes where the dealership is located. Be sure to check with the city and county where your dealership is located to determine filing requirements.

Reciprocity for City and County Taxes (Rule [810-6-5-.04.01](#)): Only one city and/or county sales, use, or lease tax may be collected irrespective of rate. For example, a Montgomery resident who purchases a vehicle in Prattville and pays City of Prattville and Autauga County sales taxes cannot be charged City of Montgomery or Montgomery County sales or use tax when the vehicle is registered in Montgomery County.

Tax-Exempt Sales: Charitable and nonprofit organizations or institutions have no special exemption from sales and use taxes. However, under the Code of Alabama, certain entities may purchase items free of sales and use tax. Beginning January 1, 2016, those entities are required to annually obtain a certificate of exemption from the Department of Revenue. Should they fail to do so, they may no longer purchase tax free. Exemption numbers and sales tax numbers may be verified using the state's My Alabama Taxes website at www.myalabamataxes.alabama.gov. To verify a sales tax account number, the dealer must log in to his/her MAT account. However, exemption numbers may be verified without entering the login information.

Computer Software (Rule [810-6-1-.37](#)): Canned computer software is subject to sales tax. However using a web-based service where the software is not transferred or downloaded to the dealer's computer is not taxable. This could include programs to determine vehicle values, transmit credit applications, determine previous status of a vehicle, etc.

Sales Tax Filing: To file taxes, go to www.myalabamataxes.alabama.gov.

Automobile Dealer Sales Transactions

Rebates: Manufacturers' rebates of any type are taxable when applied to the purchase price of an automotive vehicle. A rebate assigned to a customer is taxable when used as a down payment on a vehicle. If the customer accepts the rebate in cash and does not apply it to the purchase of a vehicle, it is not subject to sales tax. A dealer rebate is treated the same.

Demonstrators/Driver's Ed Vehicles (Rule [810-6-2-.04](#)): When an automotive vehicle is withdrawn from a dealer's inventory for use by himself or an employee, a \$5 annual fee is due. The fee is not due on vehicles withdrawn from inventory for rental or leasing purposes if the vehicle is subject to lease tax. A vehicle sold to a salesperson as a demonstrator is subject to sales tax. A vehicle provided by a dealer to a school for driver's education purposes is subject to the \$5 fee, but not sales tax.

Accessories (Rule [810-6-2-.02](#)): Accessories purchased from a dealer after a vehicle is purchased are subject to the 4 percent rate. Accessories added to the vehicle before the sale and added in the sales price of the vehicle are subject to the automotive rate of 2 percent. The original invoice must show the accessory sold at the time of the sale with the vehicle.

School Buses (Rule [810-6-2-.88.02](#)): A school bus purchased by an individual for use under the direction of and control of a board of education is subject to tax. School buses purchased by the school and paid for directly with school funds or obligating school funds are exempt from tax.

Courtesy Deliveries (Rule [810-6-1-.12.01](#)): An Alabama dealer who makes a courtesy delivery of an automotive vehicle in Alabama for an out-of-state dealer is not the seller and is

not liable for collecting Alabama sales tax; the out-of-state dealer is the seller. The purchaser must pay tax when registering the vehicle.

Discounts (Rule [810-6-1-.53](#)): Cash discounts are not taxable. Discounts for volume sales are not taxable. (Rule [810-6-1-.54](#))

Sales to Licensed Dealers (Rule [810-6-1-.89.02](#)): Sales to licensed dealers of tangible personal property to be put in the stock of the purchasing dealer are not subject to sales tax, even though that dealer may occasionally take from stock some part of the inventory for use or consumption, whereupon, it would be taxable to that dealer. Sales to a licensed dealer for his own use rather than for resale purposes are subject to sales tax.

Sales of New Cars to Used Car Dealers: Independent used car dealers who have valid retail sales tax licenses may purchase new vehicles without payment of sales tax; however, the exemption only applies if the sole intent and purpose is to place the vehicle immediately into inventory for resale. The used car dealership must also title the new car in the name of the dealership. If a used car dealer purchases a new vehicle with the intent for any purpose other than a sale to the public, sales tax is due.

Dealer Transfers: A dealer transfer is usually treated as an adjustment to an inventory account and is not charged to sales. Dealer transfers handled in this manner should not be deducted as wholesale sales.

Fleet/Rental Company Sales: Sales to fleets are generally subject to sales tax unless they are made to rental or leasing companies that have an Alabama rental tax number and will be rented in a transaction subject to Alabama rental tax. (Rule [810-6-5-.09](#)) Sales tax is due on the sale to an unqualified out-of-state lease company that takes possession in Alabama for lease solely outside Alabama. A drive-out certificate should be completed at the time of the sale, when applicable, if the vehicle is going to be first registered out of state for sales tax not to be due on such a transaction. **Special rules may apply. Please refer to section, “Vehicle Sales to Out-of-State Residents.”**

Giveaway Programs: Vehicles withdrawn from a dealer’s inventory to be given away as a prize or promotion are subject to sales tax based on the cost to the dealership. (Rule [810-6-1-.196](#)) The dealership is responsible for taxes on these transactions. Since it is a gift to the customer, the customer will not owe use tax. Vehicles sold to and paid for by the Poarch Band of Creek Indians are not subject to sales tax when also delivered to reservation land.

Trade-Ins for Family Members: A vehicle may be traded in to a dealer by the titled owner on behalf of another individual without first being titled in the individual’s name. For example, a father may trade in a vehicle titled in his name on behalf of his son without titling it first in the son’s name.

Loaned Vehicles: A vehicle loaned by the dealership to a celebrity spokesperson or other person supplying a business or service to the dealership is subject to rental tax on the value of the vehicle.

Vehicles Loaned to Universities/Coaches: Vehicles loaned to college sports teams and their coaches free of charge that remain in the inventory of the dealer for sale, and display dealer tags are not subject to sales tax but must pay the \$5 annual demonstrator fee.

Sales in Interstate Commerce (Rule [810-6-3-.35.02](#)): Sales are considered to be made outside of Alabama and are not subject to Alabama sales tax where the seller is required by the sales agreement to deliver the goods outside the state in the seller's equipment, by common carrier or the U.S. Postal Service, or independent trucker. It is also exempt if the buyer contracts with a common carrier or the Postal Service to accept delivery of goods in the state for delivery outside the state. When a buyer or an agent of the buyer, who is not a common carrier, takes actual possession of the goods in the state, the goods are subject to sales tax. (Shipping documents should be kept in the deal file to substantiate mode of delivery.)

Out of State/City/County Deliveries (Rule [810-6-3-.03.02](#)): When a dealer sells an automotive vehicle and delivers it outside of the State of Alabama or outside the city and/or county where the dealership is located, the dealer and the customer must complete the form "Certificate of Exemption—Out of State/City/County Delivery. Dealers may print a copy of the form at <https://revenue.alabama.gov/wp-content/uploads/2017/05/STEX1.pdf> .



ALABAMA DEPARTMENT OF REVENUE
SALES AND USE TAX DIVISION
SALES TAX SECTION

P.O. Box 327710 • Montgomery, AL 36132-7710

ST: EX-1 9/11

IMPORTANT
Exemption will be disallowed
if complete and correct
information is not furnished.

Certificate of Exemption – Out of State/City/County Delivery

Required by the Provisions of Sales and Use Tax Rule 810-6-3-.03.02

SALES TAX REGISTRATION NUMBER		INVOICE NUMBER	DATE OF SALE
SELLER			
SELLER'S ADDRESS		CITY	STATE ZIP
BUYER			
BUYER'S ADDRESS		CITY	STATE ZIP
DESCRIPTION OF THE AUTOMOBILE, OTHER MOTOR VEHICLE, OR TRAILER			
MAKE	MODEL	YEAR	
VIN (VEHICLE IDENTIFICATION NUMBER)		<input type="checkbox"/> New <input type="checkbox"/> Used	
TOTAL SALES PRICE	TRADE-IN ALLOWANCE	NET AMOUNT PAID	WILL BE TITLED IN OR REGISTERED IN WHAT STATE
\$	\$	\$	

OATH

We, the undersigned seller and buyer, or representative thereof, being duly sworn according to law, hereby certify that the above described tangible personal property has been sold and will be delivered in interstate/intrastate commerce as indicated herein, and that the information contained herein is true and correct.

SELLER'S SIGNATURE	BUYER'S SIGNATURE
SELLER'S PRINTED NAME	BUYER'S PRINTED NAME

This certificate must be executed by the seller and buyer at the time of the sale of the vehicle or trailer.

CERTIFICATE OF OUT OF STATE/CITY/COUNTY DELIVERY

State of _____ County of _____

I, _____, being duly sworn according to law, depose and say that I have personally delivered the automobile, other motor vehicle, or trailer described above outside _____ to _____
CITY / COUNTY / STATE

NAME _____ At _____ PLACE OF DELIVERY (CITY/COUNTY/STATE) On _____ DATE

Check the status of the person making the delivery: Seller Employee of Seller

SIGNED _____

INSTRUCTIONS: The Certificate of Exemption — Out of State/City/County Delivery must be prepared by the seller and buyer at the time of the sale of the vehicle or trailer. The Certificate of Out of State/City/County Delivery must be executed by the person actually making delivery of the motor vehicle or trailer within two days of the time of delivery. The original affidavits, fully completed, must be kept with the seller's copy of the invoice.

Vehicle Sales to Out-of-State Residents: Residents of other states that do not allow Alabama vehicle purchasers to purchase a vehicle without the payment of tax to that state for first titling and registering in Alabama will be required to pay 2 percent to the State of Alabama when those residents purchase a vehicle in Alabama. Dealers will not be required to collect any city or county taxes on these sales if they use the “Automotive Vehicle Drive-Out Certificate for Nonresidents.” (Form DOC-1 10/15) In addition, in no case can the amount of Alabama state sales tax collected on these sales exceed the amount of sales tax that would otherwise have been due in the state where the vehicle will be registered or titled for first use. Dealers should follow the Alabama sales tax rules when calculating the tax.

This partial exemption law does not impact lease or rental tax.

Alabama sales tax must be collected on sales to residents of the following states at the rates listed below:

STATE	STATE ABBREVIATION	SALES TAX DUE TO STATE OF ALABAMA
Arizona	AZ	2%
California	CA	2%
Florida	FL	2%
Indiana	IN	2%
Massachusetts	MA	2%
Michigan	MI	2%
South Carolina	SC	2% (capped at \$500)

The Alabama Department of Revenue will annually publish by January 1, a list of states that do not allow a full exemption to Alabama residents purchasing vehicles in those states. That list, which will be posted on the Department’s website, may be relied upon by dealers and, should the list be incorrect, dealers will be relieved from liability.

Examples of Taxation Options

Florida Resident Purchases Vehicle from Alabama Dealer

- Option 1: Florida resident takes possession at Mobile, Alabama dealership: Alabama dealer collects state, city, and county sales taxes.
- Option 2: Florida resident takes possession at Mobile, Alabama dealership: Alabama dealer collects the 2 percent State of Alabama sales tax but does not collect City of Mobile and Mobile County sales taxes by completing the “Automotive Vehicle Drive-Out Certificate for Nonresidents,” if the vehicle is removed from the State of Alabama within 72 hours. The State of Florida will give the Florida resident credit for the 2 percent sales tax paid to the State of Alabama.

- Option 3: Alabama dealer delivers vehicle to Florida resident outside the State of Alabama: no State of Alabama, city, or county taxes are collected and at the time of delivery, dealer completes the “Certificate of Exemption—Out of State/City/County Delivery” form. Dealer should retain this form in the deal file or where other tax records are maintained.
- Option 4: Alabama dealer delivers vehicle out of state in dealer’s equipment or by common carrier: no Alabama taxes collected. Dealer should retain proof of delivery in the deal file or where other tax records are maintained. That proof could include an affidavit signed by the purchaser when the vehicle is delivered, an invoice from the third-party common carrier that delivers the vehicle, etc.

(Note: Some dealers have historically sent the title, registration documents, and a check for sales tax to the county official in the purchaser’s home state to ensure that the vehicle is registered and the lien perfected. Under the new law, if the purchaser from one of the states listed above takes possession of the vehicle in the State of Alabama, the dealer must collect the 2 percent Alabama state sales tax. For example, for sales to Florida residents, the dealer could collect 2 percent for the State of Alabama and send a check for 4 percent to the State of Florida. In order to avoid collecting county and city sales taxes, the dealer should continue to use the Drive-Out Certificate.)

Alabama Resident Purchases Vehicle from Florida Dealer

- Option 1: Florida dealer delivers vehicle out of state: no Florida taxes collected.
- Option 2: Alabama resident takes possession at Florida dealership:
If a Florida dealer sells a motor vehicle to a resident of another state that imposes a sales tax of less than 6 percent (Florida vehicle sales tax rate) and the buyer takes possession of the vehicle in Florida, the buyer’s home state rate may be applied to the sale.
- For example, an Alabama resident would sign an affidavit and pay 2 percent sales tax to the State of Florida because Alabama has a 2 percent state sales tax rate on motor vehicles. The Alabama resident must still pay applicable local (county and city) sales/use tax at the time of registration in Alabama. Credit is given for the 2 percent state tax paid to Florida, so no state sales/use tax is due in Alabama.

Automotive Vehicle Drive-Out Certificates for Nonresidents may not be used for the sale of motor homes or travel trailers and state, city, and county sales taxes must be collected on the sale of those vehicles to any out-of-state purchasers.

(Note: The Automotive Vehicle Drive-Out Certificate (**Rule [810-6-3-.42.03](#)**) must be executed by both the seller and the purchaser at the time of sale. Certificates completed after the transaction is concluded will be invalid. The certificate must be retained in the seller’s records along with the corresponding sales invoice. The seller will be liable for the Alabama sales tax on any sale for which the export exemption has been claimed, but the certificate and sales invoice are not retained in the seller’s files. Sales of other vehicles such as mobile homes, motor bikes, all terrain vehicles, and boats do not qualify for the export exemption.)

to the dealer performing the repairs. Labor costs that are separately stated are not taxable in either case.

Tire and Wheel/Dent and Ding/Road Hazard: These products are taxed like service contracts. Sales tax is not due on the sale of the contract, but parts used to perform the repairs are taxable. Labor costs that are separately stated are not taxable.

Window Etching: Window etching is a service and is not subject to sales tax.

Dealer Fees (Code of Alabama, Section 40-23-2(4)): Dealer fees (also known as clerical fees, doc fees, dealer prep charge, processing fees, etc.) are taxable at the automotive rate. If clearly labeled and separately stated, the \$16.50 title fee is not subject to sales tax. If not separately stated, it is taxable.

Debt Waiver/GAP Insurance: These items are not subject to sales tax.

Key Replacement Programs: Key replacement programs are taxed similar to service contracts. The key replacement contract is not taxable, but parts used to perform repairs or replacement are taxable.

Maintenance Agreements (Rule [810-6-1-.186.05](#)): If a maintenance agreement is required and mandatory as a condition of a sale, sales or use tax is due on the purchase of or withdrawal from inventory of parts used in performing repairs or services pursuant to the maintenance agreements. Tax is to be computed on the cost of the parts to the dealer. In *Warrior Tractor & Equipment Company, Inc. v. State of Alabama*, the ALJ determined, "Because the Taxpayer factored the cost of the filters into the cost of the equipment, the Taxpayer was selling the filters to its customers with the equipment per the Logan's Roadhouse rationale." Based on this case, the oil filters used in the free oil change services will not be subject to tax as long as the service is part of the sale, and the cost is figured into the selling price of the vehicle.

Service/Parts/Body Shop Transactions

Automobile Repair Shops (Rule [810-6-1-.08](#)): The retail sales to a consumer of parts, batteries, tires, etc. are taxable. Labor is not taxable if separately stated. Supplies consumed by the repair shop such as paint and solder, as well as tools and machinery used, are taxable at the time of the sale to the repair shop and collected by the supplier or paid to the Department of Revenue as use tax if the supplier is not licensed to collect sales tax.

Automotive Supply Jobbers ([810-6-1-.08.01](#)): Automotive supply jobbers (anyone who makes retail sales of auto parts and supplies) must collect sales or use tax on sales to all customers who do not have a valid sales tax license number or certificate of exemption. Invoices that do not show the purchaser's name but are made out to "cash" are always taxable. Sales to purchasers with sales tax numbers may only be made tax free, if the items are being purchased for resale. It is the responsibility of the jobber to know the nature of the customer's business so that the jobber will know when to collect sales tax on items purchased for use. Sales of any new, used or rebuilt automotive parts are taxed on the net trade difference; however, sales or use tax is due on taxable sales of batteries without any deduction for the trade in. If labor is performed in connection with the sale of repair parts, invoices covering the transaction shall clearly show the amount charged for each part and amounts charged for labor,

and that amount charged for labor is not subject to sales or use tax. If the invoices are not itemized, the entire amount of the transaction is subject to tax.

(Note: Dealers should refer to the rule for additional information concerning this complicated area.)

Retail Sales of Parts and Accessories (Rule [810-6-5-.04.02](#)): The sale of parts and accessories to retail customers at the dealership are subject to state, city, and county sales tax where the dealership is located. The sale of parts and accessories to retail customers in other cities and counties where the dealership delivers the parts in a dealership-owned vehicle are subject to state sales tax plus the applicable city and county taxes where the customer is located and must be collected by the dealer. The same is true if a dealership salesperson calls on customers in other cities and counties irrespective of how the parts are delivered. If parts are sold to retail customers in other cities and counties where the dealer has not established nexus and delivery is made by common carrier (i.e. postal service, UPS, Fed Ex., etc.), the transaction would be subject to state sales tax, but not the city and county where the customer is located. (NOTE: Sales to licensed wholesale customers such as another dealership or independent repair facility that will use the parts on customer cars and charge sales tax on the parts are not subject to state, city, or county sales taxes.)

Parts Used to Recondition or Repair Dealer-Owned Vehicles (Rule [810-6-1-.116](#)): When a licensed dealer purchases parts and materials to repair or recondition vehicles held in inventory for sale, the purchases are tax free if they become part of the vehicle that will later be sold and taxed on the total sales price. Parts and materials used to repair or recondition vehicles for others are taxable. "Materials" mean items such as paint, body lead, and wax which become part of the reconditioned vehicle. Supply items not becoming part of the vehicle such as sandpaper, masking tape, and rags are taxable retail sales when purchased by the dealer. "Parts" mean such items that are passed on substantially intact by the dealer such as fan belts and batteries. Labor charges are not taxable if separately stated.

Automobile Painting (Rule [810-6-1-.06](#)): The painting of an automotive vehicle is a service by the painter and not taxable; however, the paint, supplies, etc. used or consumed by the painter are taxable when sold to the painter.

Gasoline, Motor Fuel, and Lubricants (Rule [810-6-3-.28](#)): Gasoline and similar substances and lubricating oil and greases are exempt from sales and use taxes. Diesel and other similar substances otherwise taxed are not subject to sales and use taxes.

Warranty Parts (Rule [810-6-3-.73](#)): Parts taken from the dealer's inventory used to fulfill original or extended manufacturer's warranties are not subject to the sales tax. **(Rule [810-6-1-.186.05](#))** The fact that a flat deductible is charged to the customer has no bearing on the tax status of the parts as long as the dealer receives full credit for the parts from the manufacturer. When a dealer uses parts in repair work pursuant to any warranty agreements other than those granted by the manufacturer, the parts used in the repair are subject to tax.

Sublet Repairs (Rule [810-6-1-.141](#)): A dealer who sublets all or part of a repair job purchases the parts at wholesale, tax free, installed by the outside subcontractor; however, sales tax should be collected on the retail price of parts when billed to the consumer. Labor charges are not subject to sales tax if separately billed. A subcontractor who consumes materials and supplies, such as paint, are subject to tax on the cost of the materials and supplies at the time of purchase by the subcontractor.

Freon: Freon may be purchased tax free to be used to repair a vehicle in a dealers inventory if it becomes a part of the vehicle that will be resold. Freon used to repair or recondition customers' vehicles are subject to sales tax.

Shop Supplies: Shop supply fees included on an invoice with a retail sales of property are subject to sales tax when purchased by the dealer.

Wheel Weights: Wheel weights may be purchased tax free if used to balance the tires on vehicles in inventory that are resold; however, those used in servicing customers' vehicles are subject to sales or use tax.

Pollution Control Devices (Rule [810-6-3-.46](#)): Parts that are primarily used for pollution control, such as catalytic converters, are exempt from sales and use tax.

Use Tax

Use tax is designed to prevent out-of-state vendors from having an unfair competitive advantage against in-state vendors who must collect sales tax. The liability for paying use tax falls on the purchaser, if the vendor from whom a dealer purchases items to be used by the dealership does not collect sales or use tax. It is the responsibility of the dealer to register for a use tax account in order to self assess and report use tax due directly to the Department of Revenue. City and county use tax is also due.

Examples of items on which use tax might be due include computers purchased from out-of-state companies to be used at the dealership, shop equipment, advertising supplies, office supplies, shop supplies, etc. The majority of any large liability for use tax will be on new dealership construction or renovations where items are purchased out of state and sales or use tax was not collected at the time they were purchased.

Use tax is not due on items purchased for resale.

Use Tax Filing: To file taxes, go to www.myalabamataxes.alabama.gov.

Lease/Rental Tax

(Code of Alabama, Section 40-12-222/Rule [810-6-5-.09](#))

The leasing or renting of any automotive vehicle, truck trailer, semitrailer, or house trailer is subject to lease tax at the state rate of 1.5 percent of the gross proceeds of the lease. Leases of automotive vehicles to the state, cities, or counties are taxable to the lessor, but the tax may not be invoiced to the state, city or county.

Many cities and counties also impose lease tax. Those rates may be obtained at <https://revenue.alabama.gov/sales-use/tax-rates/>.

Lease tax is levied against the lessor (leasing company) and not the lessee (customer); however, the tax may be passed on to the customer with the exception of governmental entities.

The tax that is passed on, however, must be included in the monthly taxable gross proceeds subject to lease tax. In other words, lease tax is a tax due on the total amount received.

Example:

\$500	monthly automotive lease tax payment
<u>x1.5%</u>	state lease tax
\$507.50	lease payment with tax to consumer
<u>x1.5%</u>	state lease tax
\$7.61	amount due to state from lessor

Short Term Leases: On vehicles leased to customers from a fleet of rental cars, lease tax is due on the total rental contract, including insurance, damage waiver, etc. even if separately stated on the contract. Local tax rates are based on the location of the leasing company.

Long Term Leases: In long term leases with an option to purchase at the end of the lease, the typical transaction involves the leasing dealership, the leasing company to which the lease is assigned by the dealer, and the customer. In this type of transaction, lease proceeds are usually received by both the dealership and leasing company.

A. Taxable Proceeds at Dealership: Capitalized cost reductions or down payments by the customer whether by cash, manufacturer rebate, or other means are subject to lease tax. Dealer fees are subject to lease tax. The state, city, and county lease tax due is based on the dealership location. The first payment made at the dealership is subject to tax based on the dealership location.

The lease tax law does not allow a deduction for trade ins as in the sales tax law. If the customer trades in a vehicle that he owns and applies his equity in the vehicle as all or part of a cap cost reduction on the new leased vehicle, that amount is subject to lease tax. The net amount (vehicle ACV less any lien payoff) allowed for the trade in constitutes gross receipts derived from the lease and is subject to lease tax. The dealership's records should clearly indicate the lien payoff by the dealership and the net trade-in allowance calculation. If the trade in allowed has negative equity and that amount is added back to the price of the vehicle to be leased, the negative equity amount is subject to lease tax.

B. Taxable Proceeds Received by Leasing Company: When the dealership sells or assigns the lease to a leasing company, the leasing company would owe rental tax on the monthly amounts received from the customer based on the customer's garaging location of the vehicle.

(The guidelines discussed in A and B above are applicable when the dealership writes up the lease in its name, receives the down payment, and then sells or assigns the lease to a leasing company. However, if the dealer is acting as an agent of the leasing company, the leasing company is liable for all rental taxes due on the transaction including rental tax on the cap cost reduction and the first payment if taken at the dealership.)

Security Deposit: A refundable security deposit is considered part of the lease proceeds. Lease tax can be charged when the deposit is received, then refunded when it is returned at the termination of the lease. Another option would be for the lessor to defer payment of the tax on the security deposit until the termination of the lease. If the lessor retains the deposit, lease tax would be due on it at the termination of the lease.

Dealer Loaner Vehicles: If a dealer loans a vehicle out of dealer inventory, the customer is not charged, and the dealer is not reimbursed by the manufacturer, no lease tax is due. If the customer is not charged, but the dealer is reimbursed by the manufacturer, lease tax is due on the amount paid to the dealer. Even if the dealer has a separate loaner vehicle entity, lease tax is due if the entity is reimbursed by the manufacturer. The same is true for a vehicle loaned under an extended warranty or service contract; if the dealer is reimbursed, tax is due.

Loaners from Rental Car Companies: If a dealer arranges a loaner vehicle for a customer through a separate rental car company (i.e. Enterprise) and the dealer is reimbursed from the manufacturer, the dealer should provide the rental car company with the dealership's rental tax number. The rental car company would not collect rental tax from the dealer, but the dealer would pay rental tax on the amount reimbursed by the manufacturer. If the dealer does not have a rental tax account, the dealer would pay rental tax to the rental car company.

Leasing to someone in another state/delivery: There is no drive-out provision for lease/rental tax. If a customer picks up a vehicle in Alabama, the transaction is taxable in Alabama.

Fleet/Rental Company Sales: Sales to fleets are generally subject to sales tax unless they are made to rental or leasing companies that have an Alabama rental tax number and will be rented in a transaction subject to Alabama rental tax. **(Rule [810-6-5-.09](#))** Sales tax is due on the sale to an unqualified out-of-state lease company that takes possession in Alabama for a lease solely outside Alabama. A drive-out certificate should be completed at the time of the sale if the vehicle is going to be first registered out-of-state for no sales tax to be due on such a transaction. **Special rules may apply. Please refer to section, "Vehicle Sales to Out-of-State Residents."**

Sale of a Previously Leased Vehicle: If an automotive vehicle that was previously leased is later sold, sales tax is due on the gross proceeds of the sale.

(Rule [810-6-5-.09.01](#)—Rule 2)

The gross proceeds received by the lessor for services provided which are incidental to the lease and included in the lease agreement are subject to lease tax, even if the charges for such services are separately stated. When under a separate optional agreement, the lessor of tangible personal property performs independent services that are separate, distinct, and not incidental to the leasing of the property, the gross proceeds from those services are not subject to lease tax if separately stated.

When a lessor requires maintenance of the item leased as part of the leasing contract, the gross proceeds derived from the maintenance charge are subject to lease tax. Tax is not due on a separate, optional maintenance contract.

If delivery and pickup charges are part of the lease agreement, they are subject to lease tax. If those charges are imposed in a separate, optional agreement, they are not taxable.

Lease Tax Filing: To file taxes, go to www.myalabamataxes.alabama.gov.

Casual Sales and Use Tax

Casual Sales and Use taxes (Code of Alabama, Section 40-23-101) are designed to uniformly tax all vehicle sales and purchases that are not otherwise taxed. This commonly involves sales between individuals. The tax rates are the same as the sales and use tax rates.

Licensed dealers are required to collect sales taxes for the state, city, and county. If an individual purchases a vehicle other than at wholesale from any seller in Alabama that is not a licensed dealer or from outside the state of Alabama, the purchaser must pay both state and local use tax when registering the vehicle with the county licensing official in the county where the purchaser resides.

This report is intended to provide information to automobile dealers and other recipients on the subject matters covered. ADAA is not rendering legal, accounting, or other professional services or advice and assumes no liability whatsoever in connection with its use. Please consult with the dealerships professional advisors.