

April 2025 Informational Bulletin

Chicago Personal Property Lease Transaction Tax: Capital Cost Reductions, Down Payments, and Trade-Ins

To: Registered Lessors

In April 1996, Chicago issued its first informational bulletin addressing common Personal Property Lease Transaction Tax issues for vehicle leasing companies. A follow-up informational bulletin was issued in May 1997. The purpose of this updated informational bulletin is to further clarify the application of the tax to capital cost reductions, down payments, and trade-in allowances on long-term vehicle leases.

General Information

The Chicago Personal Property Lease Transaction Tax ordinance now imposes an 11% tax on (1) the lease or rental in the city of personal property, or (2) the privilege of using in the city, personal property that is leased or rented outside the city (3-32-030(A)).

Capital cost reductions in a long-term automobile lease, such as down payments and trade-in allowances, are considered part of the lease or rental price. Therefore, under certain circumstances they are subject to the tax. The taxability of capital cost reductions will be determined based upon where the vehicle will be registered and garaged at the beginning of the lease period.

Are down payments and trade-ins taxable if the vehicle is titled or registered in the city?

Yes, down payments and trade-in allowances are taxable for all leases, regardless of where entered into, provided the vehicle is titled or registered in the City at the time of entering into the lease.

Are down payments and trade-ins taxable if the vehicle is titled or registered outside of the City?

The degree to which down payments and trade-in allowances are taxable for leases which are titled or registered outside the City depends on where the initial lease was entered into.

- **Lease Entered Into In the City**

The tax would apply to a fraction of the down payment and trade-in allowance. A lease payment is not considered taxable for any rental period in which the vehicle is used solely outside the city. However, the tax is due for the lease payment and for the portion of the down payment and trade-in value for the period in which the lessee takes possession or delivery of the vehicle at a location or dealership within the city.

Example: A customer leases a vehicle from a dealership located in Chicago. The lease has a 36-month lease term. The customer titles and registers the vehicle in Oak Brook. The customer made a down payment of \$1,000 and had a trade-in with a value of \$1,000.

The first month of the lease would be considered taxable because the lessee took possession of the vehicle at the dealership located within the city. Therefore, 1/36 (1 taxable monthly lease payment out of a 36-month lease) of the down payment and 1/36 of the trade-in value would be considered taxable. The taxable portion of the down payment and trade-in amounts would be \$2,000 (\$1,000 down payment + \$1,000 trade-in value) * 1/36 = \$55.56. The tax due on the down payment and the trade-in amounts would be \$55.56 * 11% = \$6.11.

- **Lease Entered Into Outside of the City**

For leases which are entered into outside of the City where the vehicle is to be titled and/or registered outside the City, no tax is due on the down payments or trade-in allowances.

Are down payments and trade-ins taxable if a lessee moves into or out of the city during the period of the lease agreement?

Moving in or moving out of the City during the term of the lease agreement will not change the taxability of the capital cost reduction, such as down payments and trade-in allowances. (Note: this only refers to tax on the capitalized cost reduction payments at the inception of the lease. If the lessee moves into the City during the lease term, the tax will thereafter apply to the regular monthly lease payments made.) As described above, the taxability of capital cost reductions will be determined solely based upon where the vehicle will be registered and garaged at the beginning of the lease period. 100% of the capital cost reduction will be taxable where the lessee demonstrates that the initial place of garaging or use will be in the city. If the lessee demonstrates that the initial place of garaging or use will be outside of the city, then only the first month's pro-rated portion of the capital cost reductions will be taxable in the scenario where the lease is entered into at a Chicago dealership. No tax is due on any portion of the capital cost reductions where a vehicle will be initially garaged outside of Chicago where the lease was initiated at a dealership located outside of the city. There will be no subsequent adjustments to the portion of the capital cost reductions that are subject to tax if a vehicle is later moved into or moved out of the city during the lease term. Note that this represents a change from the Department's previous position on moves during the lease period.

Contact Us

If you have questions or need more information, please email the Chicago Department of Finance's Tax Division at taxpolicy@cityofchicago.org