

STATE OF NEVADA
DEPARTMENT OF TAXATION



LEASES

TYPES OF LEASES

Long term

- Vehicles
- Heavy duty equipment
- Main frame computer hardware

Short term

- Vehicles
- Audio visual equipment
- Photocopiers – office machines

Leases in General

Lease or rental means

- “Any transfer of possession or control of tangible personal property for a fixed or indeterminate term for consideration”
- Applies “regardless of whether a transaction is characterized as a lease or rental under generally accepted accounting principles...” (GAAP)

NRS 360B.450

Summary of Lease Statutes and Regulations

- Tax burden on Lessee, not lessor
- Resale certificates can be accepted for re-rentals
- Each re-rental is a new 'sale' and taxable
- Rentals between related parties must be at fair market value
- Considered a sales tax and reportable as a sale (*collection allowance*)
- And.....

Summary of Lease Statutes and Regulations

- Since leases/rents are considered a sale
- And since sales to Nevada exempted entities are tax-free
- Therefore, no sales tax is due by either the lessor or the lessee when the lessee is an exempt entity!
- NAC 372.934 through NAC 372.947 cover leasing after 11/25/2009.

Summary of Lease Statutes and Regulations

Elections regarding tax on leased equipment:

- If a lessor wants to pass on the tax in the form of tax on the rental stream, they need to take **NO ACTION** thus mandating that each time the item is rented the item **MUST** be taxed. Note that the lessor still has the option of paying the tax on the purchase, but this **MUST** be done prior to the due date of the **first** sales/use tax return following the purchase of the equipment.

Summary of Lease Statutes and Regulations

- If the lease or rental contract requires an operator for any amount of time and that operator is necessary to perform as designed, the lease is

NOT TAXABLE!

Example: Carpet Cleaning Company
Shredding Company

LONG TERM VEHICLE LEASES

- A long term lease is for a period over 31 days (*NRS 482.053*)
- Information on the lease:
 - Value of leased vehicle
 - How payment at inception is disbursed
 - Estimated value at end of lease
 - Purchase option

Lease definitions

- Residual Value

The estimated fair market value of the vehicle at the end of the lease

- Capitalized Cost

The value agreed upon of the vehicle to be leased, including add-on costs, admin fees, prior lease balance, etc.

- Capitalized Cost Reduction

The amount of any net trade-in allowance, rebate, etc. that is used to reduce the amount to be leased.

When is a lease NOT a lease?

- Not subject to termination by lessee and
- Original lease term \geq than estimated life of property
- Lessee REQUIRED to renew lease
- Can renew lease for remaining life without additional consideration
- Bargain purchase option
- Lease is designated as finance lease

NAC 372.926

Taxable items in a lease

- Monthly payments
- First payment paid to dealership
- Doc fees showing on lease
- “Smog Fees” showing on lease
- Capitalized Cost Reduction

Example of completed vehicle lease

<p>AMOUNT DUE AT LEASE SIGNING OR DELIVERY</p> <p>\$10,000.00</p>	<p>MONTHLY PAYMENTS</p> <p>A. Your first Monthly Payment of \$647.01 is due on the Lease Date, followed by 62 payments of \$647.01 due on the 1st of each month.</p> <p>B. The total of your Monthly Payments is \$40,761.63.</p>	<p>OTHER CHARGES</p> <p>(not part of your Monthly Payment)</p> <p>A. Termination Fee \$395.00 (If you do not Purchase the Vehicle)</p>	<p>TOTAL OF PAYMENTS (The amount you will have paid by the end of the lease).</p> <p>\$50,509.62</p>																								
ITEMIZATION OF AMOUNT DUE AT LEASE SIGNING OR DELIVERY																											
<p>A. Amount Due at Lease Signing or Delivery:</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>(1) Capitalized Cost Reduction</td><td style="text-align: right;">\$ 8304.79</td></tr> <tr><td>(2) Sales/Use Tax on Capitalized Cost Reduction</td><td style="text-align: right;">\$ 602.10</td></tr> <tr><td>(3) First Monthly Payment</td><td style="text-align: right;">\$ 647.01</td></tr> <tr><td>(4) Refundable Security Deposit</td><td style="text-align: right;">N/A</td></tr> <tr><td>(5) Initial Title, Registration and License Fees</td><td style="text-align: right;">\$ 20.00</td></tr> <tr><td>(6) Upfront Sales/Use Tax on Vehicle</td><td style="text-align: right;">\$ N/A</td></tr> <tr><td>(7) Doc Fee</td><td style="text-align: right;">\$ 426.10</td></tr> <tr><td style="text-align: right;">Total</td><td style="text-align: right;">\$10000.00</td></tr> </table>		(1) Capitalized Cost Reduction	\$ 8304.79	(2) Sales/Use Tax on Capitalized Cost Reduction	\$ 602.10	(3) First Monthly Payment	\$ 647.01	(4) Refundable Security Deposit	N/A	(5) Initial Title, Registration and License Fees	\$ 20.00	(6) Upfront Sales/Use Tax on Vehicle	\$ N/A	(7) Doc Fee	\$ 426.10	Total	\$10000.00	<p>B. How the Amount Due at Lease Signing Or Delivery will be Paid:</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td>(1) Net Trade-in Allowance</td><td style="text-align: right;">\$ _____</td></tr> <tr><td>(2) Rebates and noncash credits</td><td style="text-align: right;">\$ _____</td></tr> <tr><td>(3) Amount to be paid in Cash</td><td style="text-align: right;">\$ <u>10000.00</u></td></tr> <tr><td style="text-align: right;">Total</td><td style="text-align: right;">\$10000.00</td></tr> </table>		(1) Net Trade-in Allowance	\$ _____	(2) Rebates and noncash credits	\$ _____	(3) Amount to be paid in Cash	\$ <u>10000.00</u>	Total	\$10000.00
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YOUR MONTHLY PAYMENT IS DETERMINED AS SHOWN BELOW																											
<p>A. Gross Capitalized Cost. The agreed upon value of the Vehicle (\$50,999.26) and any items you pay over the Lease Term (such as service contracts, insurance, and any outstanding prior credit or lease balance).....\$ 51,494.26</p> <p>B. Capitalized Cost Reduction. The amount of any Net Trade-in Allowance, rebate, noncash credit, or cash You pay that reduces the Gross Capitalized Cost.....\$ 8,304.79</p> <p>C. Adjusted Capitalized Cost. The amount used in calculating your Base Monthly Payment.....\$43,189.47</p> <p>D. Residual Value. The value of the Vehicle at the end of the Lease used in calculating your Base Monthly Payment.....\$11,761.50</p>																											

Please note that this is only a partial example of a completed lease

Discontinuing a lease

- A lease may be discontinued by:
 - Repossession
 - Property wrecked, damaged, stolen
 - New lease replaces old
 - Property returned
 - Formal notice of termination

NAC 372.942

Taxation of Leases

Included in the taxable price of a Short Term lease are any charges by the lessor for any services necessary to complete the lease. (*NRS 360B.480*)

Examples for charges necessary to complete the lease are:

Fee or charge for mileage

NAC 372.922(8)

drop-off charge

Examples of charges not considered necessary to complete the lease include:

Charge for collision damage waiver

Charges for fuel

NAC 372.922(9)

Other Sales/Use tax issues

- Replacement parts

Non-taxable if used for leased equipment since tax is being charged to the customer

Sale of leased property

Taxable

Written Response

Most tax issues can be addressed by the Department of Taxation. Please be advised that any responses to inquiries made to the Department are only binding if put in writing, such as Nevada Revised Statutes, Administrative Code, Nevada Tax Notes, or in written correspondence.

DEPARTMENT OF TAXATION

Contact Information

**Our offices are open Monday-Friday
8:00 AM – 5:00 PM**

**Contact our Call Center at
1-866-962-3707**

Las Vegas:

Grant Sawyer Office Building
555 E. Washington Avenue
Suite 1300
Las Vegas, NV 89101

Henderson:

2550 Paseo Verde Parkway
Suite 180
Henderson, NV 89074

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Carson City, NV 89706-7937

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