



# Michael Silver & Company CPAs Comprehensive Automobile Dealer Sales Tax Checklist

## Vehicle Transactions (Part 1)

### ■ Sales – Taxable

#### Reported on Form ST-556

#### Sales price includes:

Price of vehicle

Documentary fees, freight and labor, dealer preparation fees

Price of additional options added to the vehicle. After market add-ons and “We Owe”s. All add on items should be documented on the buyer’s order or bill-of-sale even if there is no additional charge to the customer.

Rebates and incentives to be included in the taxable selling price:

Factory-to-Consumer and Factory-to-Dealer rebates

Subsidy payments from the factory for employee purchase arrangement

Proceeds not included in taxable selling price:

Factory holdback payments and other volume-based incentive programs

Cost of extended warranties and service contracts

**If a deal is renegotiated, make sure the ST-556, related tax calculations and the bill of sale reflect the final transaction amounts. Only include in the deal jacket the final paperwork. Remove all interim documents and superseded drafts to insure proper recording and documentation of the deal**

### ■ Trade-Ins

Keep copies of both sides of the trade-in title in the deal jacket

Match names of the old and new title - Owner shown on old title must be an owner of new vehicle (unless there is a third party trade.)

Old lessor name should be same as new lessor name—see also new rules effective January 1, 2015 relating to tax on qualifying leased vehicles

Cash outs of trades are taxable. Except for Advance Trade in Agreements, trade-in allowances must be reduced by cash return to the customer. Cash outs are distinguished from bank payoffs. Car loan payoffs that are rolled into the new car loan are not considered cash outs

Must be like-kind property eligible for sale under the dealer’s license, e.g., car-for-car, truck-for-truck, but not car-for-motorcycle

## ■ Advance Trade Agreement (ATA)

Blank form available at [http://www.cata.info/assets/1/7/Advance\\_Trade-In\\_Credit\\_Agreement1.PDF](http://www.cata.info/assets/1/7/Advance_Trade-In_Credit_Agreement1.PDF)

### Complete of agreement when:

Customer trades in vehicle today and returns later to purchase a new vehicle

Dealer purchases an off-lease vehicle from a lessor, either at auction or when lessee is looking to change vehicles

**ATA must be used within 9 months from date signed**

**Trade-in allowance amount can be paid in cash or held as a dealer credit**

**Must make sure the individual or leasing company trading the vehicle and signing the ATA matches the name on the purchase of new vehicle**

**If a customer brings in an off-lease vehicle from one leasing company, that vehicle cannot be used as a trade-in for new lease from a different leasing company—see also new rules effective January 1, 2015 relating to tax on qualifying leased vehicles**

## ■ Third Party Trade Agreement (TIPTA)

Blank form available at [http://www.cata.info/assets/1/7/Third\\_Party\\_Trade-In\\_Agreement.PDF](http://www.cata.info/assets/1/7/Third_Party_Trade-In_Agreement.PDF)

### Complete this agreement when:

Customer trades in own vehicle against a new lease. The customer assigns the vehicle to leasing company for use as a trade-in on purchase of a new vehicle to be leased—see also new rules relating to tax on qualifying leased vehicles

Customer assigns the vehicle for use as a trade for another customer who is purchasing a vehicle

## ■ Lease – Taxable

**Reported on Form ST-556-LSE (Beginning Jan 1, 2015)**

**New Method (use for qualified leases and qualified vehicles on or after 1-1-15)**

Selling price includes the down payment, all acquisition and lease fees, and the total amount of lease payments payable over the term of the lease. Additionally, the selling price must include pre-paid warranty policies, negative equity from previous leases, and even the lessee reimbursement of lessor sales tax included in the monthly lease payment or at lease inception.

Select **A** on Line 7 of Form ST-556-LSE.

Applies to leases with both:

Fixed term lease contract for a period of more than one year

Qualified vehicles as defined as first division motor and second division vehicles with a gross vehicle weight rating of 8,000 lbs. or less, which include most automobiles, pick-up trucks, and SUVs along with certain vans, motorcycles, and recreational vehicles.

No Trade-in credits allowed—including advance trade credits and third-party trade-ins.

When vehicle is resold, no credit for sales taxes previously paid.

**Old Method (use for all leases prior to 1-1-15 and for leases and vehicles that do not qualify for the New Method on or after 1-1-15)**

Selling price is the same as if the vehicle was sold.

Select **B** on Line 7 of Form ST-556-LSE.

Applies to leases:

with a term of less than one year, or

with no defined period of time, or

with an option at the end of lease term to continue on a month-to-month beyond the initial period

Advance trade credits from the lessor or third-party trade-in credit from the lessee can be used.

When selling a leased vehicle in a taxable sale, the lessor can claim a credit up to the amount of taxes paid on the vehicle as reported in a previous ST-556 filed when the vehicle was originally purchased.

## ■ Sales or Leases Exempt from Tax

### Dealer to dealer sales and trades

If the acquiring dealer is an IL dealer, include the dealer IBT number on the ST-556.

If the acquiring dealer is an out-of-state dealer, mark "Out of State" on the space provided for the IBT number.

Obtain a CRT-61 resale certificate from the dealer.

If sold for salvage or for parts – indicate after the IBT# "salvage" or "Sold for Parts."

### Auction sales - All sales to an auction company require the filing of a ST-556

Obtain a CRT-61 resale certificate from each resale purchaser.

### Sales to out-of-state customers

Obtain copy of customer's out-of-state driver's license.

Customer must certify they are not residents of IL by completing Form ST-588 Nonresidency Exemption Certificate for Sales and Leases of Motor Vehicles and Trailers. Retain the original copy in your records. Under Step 5, use Statement A if the lessee is an individual and Statement B if the lessee is not an individual.

Deal jacket must contain evidence that the vehicle will be taken out of state by issuing a drive-away permit or retaining proof that the purchaser transferred out-of-state license plates to the vehicle purchased.

Out-of-state sales may be subject to IL tax based on IL non-reciprocal agreements with other states. Obtain a copy of ST-58 Reciprocal – Non-Reciprocal Vehicle Tax Rate Chart from the IL Department of Revenue website.

If the purchaser is a leasing company that is offering the vehicle for lease to a nonresident lessee, you must have the lessor certify non-residency of lessee as if the lessee were the purchaser. Retain the same documentation for the lessee that you would for any other non-Illinois resident claiming this exemption.

### Exempt organizations

Sales to governmental body, school, religious organization, or church

Sale must be in the name of the organization.

Must obtain a copy of the "E letter" from the organization which indicates it is exempt from IL sales tax. E letters only valid for a three year period.

Confirm that the dates on the letter are current.

Federal income tax exemption alone is not valid as IL sales tax exemption.

Sales tax exemption does not pass through to lessor purchases unless lessee is a qualifying government agency.

**Sold for rental use**

Business that purchases the vehicle for rental use and the rental periods are one year or less. These types of customers liable for Illinois's Automobile Renting Tax (ART).

Must obtain ART account ID number from customer.

■ **Credit Memorandums**

Credits from previous filed ST-556s and ST556-LSEs can be used on either a ST-556 or ST-556 LSE form



# Michael Silver & Company CPAs

## Comprehensive Automobile Dealer Sales Tax Checklist

### Service Department Transactions (Part 2)

#### ■ Repair Orders

##### Reported in monthly ST-1 Sales Tax Returns

##### Parts are taxable – labor is not

Miscellaneous Other Supplies (MOS) charges are taxable if they are not based upon some percentage of labor.

##### Factory Warranty – no sales tax is paid on parts because warranty is part of the original vehicle purchase

##### Extended Warranty/Service Contract – sales tax is due on the parts used

Tax should be paid either by the customer or the service contract provider.

##### Factory recall programs—generally treated the same as original factory warranty

Repairs performed under manufacture recall are not taxable even if the original warranty has expired.

Accounting department should keep copies of these programs on file should a deal be questioned in the future.

Any “after warranty” repairs are taxable even if the factory is covering the cost.

##### Insurance Claim repairs are fully taxable

##### Goodwill repairs

Repair is made to vehicle that is no longer subject to original factory warranty.

Taxable even if the factory reimburses the dealership for the repair.

Charge full sales tax for factory reimbursement or,

Pay use tax (6.25%) on parts if not reimbursed by the factory. Report as use tax on ST-1.

##### Repairs to inventory and demonstrators are exempt from sales tax

##### Sublet repair

Use of outside provider to perform the repair

Same as in-house repairs – parts are taxable – labor is not. If there is no breakdown on the vendor invoice, assume the parts are 50% of the cost.

Provide the vendor with a resale certificate.

Not optional to just pay tax to the sublet service provider.

### **Complimentary oil changes**

Taxable unless included with the original purchase of the vehicle

Need to maintain documentation that details the program and dates or conditions applicable.

Service ticket for free oil change should reference the program.

### **Supplies consumed when repairing vehicles are taxable to the dealer**

Tax is paid to the vendor. Do not use a resale certificate for these purchases.

Many vendors provide parts and supplies, as the vendor will exempt the parts purchase but tax the supply portion of the purchase.

Supply examples: grease, car wax, gloves, and cleaners. Any item that does not become a part of the vehicle.

## **■ Parts Sales**

### **Reported in monthly ST-1 Sales Tax Returns**

#### **Taxable unless customer provides valid resale certificate**

#### **Resale Certificates**

Require customer to provide Form CRT-61 or can accept Blanket Resale Certificates.

Review certificates on a rotating 3 year cycle to insure they are all current. The Illinois Department of Revenue holds the seller responsible for maintaining valid certificates.

## **■ Consumables and other Taxable Transactions**

### **Products consumed in the business are subject to sales tax even if the vendor does not charge tax**

Use tax at rate of 6.25%, must be self assessed on all consumable supplies and products if the vendor does not charge sales tax.

Reported in monthly Form ST-1

Includes items removed from inventory for internal use

### **Sales tax must be paid on all fixed assets**

Equipment and Furniture or Fixtures

Sales tax should be paid to vendor

If no tax is assessed then must self assess use tax.

Vehicles

Includes parts truck and other service vehicles

Includes vehicles removed from inventory as part of rental fleet unless the rental of those vehicles are subject to ART (Automobile Rental Tax)

Report these sales on ST-556

### **Supplies consumed when repairing vehicles are taxable to the dealer**

Tax should be paid to the vendor or use tax should be self assessed.

**Periodically review Accounts Payable listing to insure sales tax is properly paid or use tax self assessed**

## ■ Other Administrative

**Reconcile total non-vehicle sales as stated on Factory Financial Statement to gross sales on monthly ST-1**

**Reconcile accrued sales tax account on a monthly basis to insure there is no sales tax collected that was not remitted to the state**

All tax collected from customers must be remitted to the state even if the tax was collected in error. If not remitted, the tax must be refunded to the customer.

Adjust accrual account for any discount allowed on the ST-1 return.

## ■ Filing forms

**Form ST-556 and ST-556-LSE can be filed electronically using MyTaxIllinois at the website [tax.illinois.gov](http://tax.illinois.gov) or through the Sec of State approved service provider.**

**ST-1 forms are due monthly and must be filed electronically no later than on the 20<sup>th</sup> of subsequent month.**