



# *i*nformational Bulletin

David Harris, Director

## Illinois Sales and Use Tax Applies to Leased or Rented Tangible Personal Property

This bulletin is written to inform you of recent changes; it does not replace statutes, rules and regulations, or court decisions.

**For information**  
Visit our website at:  
[tax.illinois.gov](http://tax.illinois.gov)

Call us at:  
1 800 732-8866 or  
217 782-3336  
1 800 544-5304 TTY

Email us at:  
[REV.TA-Sales@illinois.gov](mailto:REV.TA-Sales@illinois.gov)

---

**To: All persons who, in the ordinary course of business, lease or rent tangible personal property**

---

Effective **January 1, 2025**, if you lease or rent tangible personal property in the ordinary course of your business, you are considered a retailer subject to Illinois' Sales and Use Tax laws, and you must register with the Illinois Department of Revenue (IDOR) and pay tax on your lease or rental receipts. See P.A. 103-592.

### What constitutes a lease?

A "lease" is "a transfer of the possession or control of, the right to possess or control, or a license to use, but not title to, tangible personal property for a fixed or indeterminate term for consideration, regardless of the name by which the transaction is called." The definition of a "lease" includes what is commonly understood to be a rental. Both leases and rentals are taxable retail sales.

Note that a lease does not include a lease entered into merely as a security agreement that does not involve a transfer of possession or control from the lessor to the lessee. 35 ILCS 120/1.05, 120/1.

### Who is subject to the tax on leases and rentals?

As amended, the Retailers' Occupation Tax Act provides that a lease of tangible personal property is considered a sale at retail, so if you are in the business of leasing or renting tangible personal property, you must register as a retailer with IDOR. 35 ILCS 120/2a. If you lease or rent property from an Illinois business, on or after January 1, 2025, tax will be itemized on your receipt.

## **Does this change impact leases or rentals of items that must be titled or registered with an agency of the State of Illinois?**

Generally, no. The changes made by this legislation do not apply to leases of motor vehicles, watercraft, aircraft, and semitrailers, as defined in Section 1-187 of the Illinois Vehicle Code, that are required to be titled or registered with an agency of the State of Illinois, except for trailers other than semitrailers. 35 ILCS 120/1.05.

Check the our website at [tax.illinois.gov](https://tax.illinois.gov) for additional, detailed guidance on leases or rentals of trailers other than semitrailers.

## **How do I make tax-exempt purchases of tangible personal property that I will lease or rent?**

On or after January 1, 2025, you may use Form CRT-61, Certificate for Resale, to claim an exemption from Sales and Use Tax on purchases of merchandise that will be leased or rented if the lease or rental of that item will be subject to Retailers' Occupation Tax. Form CRT-61 is available on our website at [tax.illinois.gov](https://tax.illinois.gov).

## **What receipts from a lease or rental transaction are subject to tax?**

In the case of leases and rentals, except as otherwise provided in the Retailers' Occupation Tax Act, the lessor must remit with its tax return only the tax applicable to that part of the selling price actually received during that reporting period. 35 ILCS 120/3. Lessors must report and pay tax on their receipts as they are collected over the the course of the lease or rental contract.

"Selling price" with regard to a rental or lease is the same as with a retail sale: the consideration for a sale valued in money whether received in money or otherwise, including cash, credits, property, and services. For example, for taxpayers filing monthly returns, tax is due on lease receipts received during the month.

## **Are leases and rentals of computer software subject to the tax?**

Yes. However, leases and rentals of computer software that qualify as an exempt license of software are exempt from Retailers' Occupation Tax. P.A. 103-592 exempts leases and rentals of computer software from tax if the computer software transferred is subject to a license meeting the requirements detailed in 35 ILCS 120/2-5(49)(1).

## **Are existing contracts for lease or rental entered into prior to January 1, 2025, subject to the tax?**

Yes. The tax is imposed on all gross receipts received on or after January 1, 2025, under a lease or rental contract. While the tax does not apply to receipts received before January 1, 2025, any amounts received on or after January 1, 2025, are subject to the tax, including amounts received on contracts with current customers that were in place before January 1, 2025. For leases with periodic lease payments, the tax takes effect for the billing period that begins on or after the effective date of the tax rate change. For example, if the monthly billing period runs from the 20th of the month through the 19th of the next month, the lease tax takes effect with the lease receipts received for the billing period that runs from January 20, 2025, through February 19, 2025 (*i.e.*, the billing period that begins on or after January 1, 2025).

## How do I register as a retailer or use tax filer reporting tax on leases?

You can use MyTax Illinois to add new tax registrations. After logging in to MyTax Illinois, choose “More...,” and then under the “Registration Information” panel, select “Register for New Tax Accounts”:

Receipts for leases or rentals of items of tangible personal property are reported on Form ST-1, Sales and Use Tax and E911 Surcharge Return. Lessors of tangible personal property (not including trailers other than semitrailers) will register as a retailer filing Form ST-1.

**Note:** Sole proprietorships can only register for new tax accounts by selecting “Register a New Business (Form REG-1)” and completing Form REG-1, the Illinois Business Registration Application.

If you cannot register electronically, you can complete an updated paper Form REG-1 and REG-1-L, Illinois Business Site Location Information, available on our website at [tax.illinois.gov](https://tax.illinois.gov) and submit it via email, fax, or mail.

Contact our Central Registration Division at **217 785-3707** for information or assistance.

## How do I determine the rate of tax to collect on lease or rental transactions?

For a lease or rental requiring recurring periodic payments in which the lessor delivers the item to the customer, each periodic payment is sourced to the primary property location where the leased or rented item is located for the reporting period covered by the payment. The primary property location shall be as indicated by an address for the property provided by the lessee that is available to the lessor from its records maintained in the ordinary course of business, when use of this address does not constitute bad faith. The property location is not altered by intermittent use at different locations, such as use of business property that accompanies employees on business trips and service calls.

Use the Tax Rate Finder on the MyTax Illinois homepage to search by address for the taxing jurisdiction corresponding to each address where the leased tangible personal property is located, for the duration of the lease or rental. Leases or rentals with periodic payments and delivery to the customer will be sourced using destination-based ROT sourcing. “Destination-based ROT” means the total State and local ROT rate calculated for a lease or rental using the rate in effect at the Illinois location to which the item leased or rented is shipped or delivered, or at which possession is taken by the lessee. For destination-based leases or rentals, lessors must register a tax site for each jurisdiction (*i.e.*, city or county) where it has made a lease or rental or plans to make leases or rentals.

For all other leases or rentals, including a lease or rental that does not require recurring periodic payments and any lease or rental in which the customer takes possession of the property at the lessor’s place of business, the payment is sourced as otherwise provided under the Retailers’ Occupation Tax Act for sales at retail other than leases or rentals. See, *e.g.*, 86 Ill. Adm. Code 270.115.

If you file electronically using MyTax Illinois, the rates will be populated for you according to the locations you register consistent with these sourcing rules. MyTax Illinois allows users to add or remove locations using the Maintain Locations link in your Sales and Use Tax (ST-1) account. You also can contact us by calling 217 785-3707 or writing to:

**CENTRAL REGISTRATION DIVISION  
ILLINOIS DEPARTMENT OF REVENUE  
PO BOX 19030  
SPRINGFIELD IL 62794-9030**

It is important to keep your registration information updated so your returns will include the correct tax rates.

## **What if I have multiple sites?**

If you have one business but lease or rent tangible personal property at more than one permanent location (tax site), you must report the receipts from each of your permanent business locations on Form ST-2, Multiple Site Form. If you have more than one business that leases or rents tangible personal property, you must register each permanent business location using the physical address as the tax site to report and pay the tax.

## **How do I file Form ST-1 and pay the tax due?**

Use MyTax Illinois, available at [mytax.illinois.gov](https://mytax.illinois.gov), to file Form ST-1 and pay any tax due electronically. See the Instructions for Form ST-1, available on our website at [tax.illinois.gov](https://tax.illinois.gov), for more information.

## **When is Form ST-1 due?**

You must submit Form ST-1, along with your payment for any tax due, on or before the 20th day of the month following the end of your reporting period. IDOR determines how often you must file a return based on your initial registration and annual liability.

**Note:** If the due date falls on a weekend or holiday, your return and payment are due the next business day.

## **Does this change affect items currently subject to the Rental Purchase Agreement Tax?**

No. Merchandise subject to the Rental Purchase Agreement Tax is not subject to the tax on leases and rentals under the Retailers' Occupation Tax.

The Rental Purchase Agreement Tax is imposed on only a subset of rentals that occur in Illinois. A "rental purchase agreement" is an agreement for the use of merchandise by a consumer for personal, family, or household purposes for an initial period of four months or less that is automatically renewable with each payment after the initial period and that permits the consumer to become the owner of the merchandise. Such an arrangement typically is known as a "rent-to-own" transaction and is taxed under the Rental-Purchase Agreement Act, 815 ILCS 655/0.01 et seq., and not the Retailers' Occupation Tax Act.

## **Is tangible personal property that is subject to an existing local lease transaction tax subject to the State lease tax?**

No. Items of tangible personal property that are subject to a local lease transaction tax that was adopted by ordinance by a home rule unit of local government prior to January 1, 2023, such as the City of Chicago's Personal Property Lease Transaction Tax, are exempt from the State and local Retailers' Occupation Tax on lease receipts under P.A. 103-592. 35 ILCS 120/2-5(49)(2). All purchases for lease of property that is subject to tax on lease receipts under P.A. 103-592 are authorized to be purchased tax-free for resale, even property that, when leased, is exempt from State and local Retailers' Occupation Tax because it is subject to Chicago's Personal Property Lease Transaction Tax.

## **Can I request a credit for tangible personal property on which I paid tax when I purchased it?**

No. P.A. 103-592 contains no provision allowing taxpayers who are subject to the tax on lease receipts to claim a credit for tax paid on tangible personal property previously purchased for the purpose of leasing to the business's customers.

Credit is, however, available to all lessors who incur Retailers' Occupation Tax liability on off-lease sales (*i.e.*, sales of previously leased items at the expiration of their leases), as long as Illinois tax was paid when the lessor purchased the particular item being sold. See 86 Ill. Adm. Code 130.2013(h).

## **Am I allowed to claim depreciation on leased merchandise I previously used outside Illinois?**

No. Depreciation for use outside Illinois is not allowed for property acquired and used outside Illinois before being brought to Illinois for use here under a lease or rental contract that is subject to the tax on lease or rental receipts under P.A. 103-592. That is because the tax is imposed on the lease or rental receipts as they are received, not based on the current value of the property. 35 ILCS 105/3-10.

## **Do I owe tax if I lease tangible personal property from a business that does not collect the tax from me?**

Yes. Tax not paid to a retailer or lessor shall be paid to IDOR directly by any person using the leased or rented merchandise in Illinois.

You must register to file Form ST-1 to report and pay the tax or you can file Form ST-44, Illinois Use Tax Return, to report and pay the tax.

## **What if I have questions?**

If you have questions or need help, call our Taxpayer Assistance Division at **1 800 732-8866, 217 782-3336, or 1 800 544-5304 (TTY)**. You may also visit our website at **tax.illinois.gov** or scan the QR code provided.



Language assistance services are available upon request and are free of charge.