

Nebraska Sales Tax on Leased Motor Vehicles

Overview

The gross receipts from the lease or rental of motor vehicles in this state are subject to Nebraska and any applicable local sales tax.

The information in this guide pertains only to leases that are classified as “operating” leases. Capital leases that are considered “conditional sales” or “financing leases” are not covered. These conditional sales or financing leases are taxed on the total contract price at the beginning of the lease, with no additional tax due on the periodic lease payments.

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Terms

Lessee. A lessee is someone who is granted a lease.

Lessor. A lessor is someone who grants the lease.

Motor Vehicle. When the term motor vehicle or vehicle is used in this information guide, it refers to automobiles, trucks, trailers, semitrailers, and truck tractors which are not classified as transportation equipment.

Transportation Equipment. Transportation equipment includes:

- ❖ Trucks and truck tractors with a gross weight rating of 10,001 pounds or greater;
- ❖ Trailers, semitrailers, or passenger buses that are registered through the International Registration Plan and operated under authority of a carrier authorized and certified by the U.S. Department of Transportation or another federal authority to engage in the carriage of persons or property in interstate commerce; and
- ❖ Containers designed for use on, and component parts attached or secured to, transportation equipment.

Lessor's Responsibilities

Permits. All lessors of motor vehicles in Nebraska are retailers and are required to hold a Nebraska Sales Tax Permit. A lease or rental is a sale because there is a transfer of possession. This includes lessors who are located in another state who have leased motor vehicles registered in this state. Application for the permit is made on a [Nebraska Tax Application, Form 20](#).

Collecting the Tax. Lessors are agents of the state for purposes of collecting sales tax. The tax collected by lessors is a trust fund owned by the State of Nebraska. The taxes collected should be kept separate from other business receipts and retained or deposited in a specific account.

Lessors of motor vehicle leases or rentals are required to collect sales tax on the total amount of the lease or rental. The total amount includes any deposits, down payments, initial payments, services, and any other taxable charges related to the lease or rental (for example, charges for refueling and insurance). Amounts paid by the lessee for in lieu of property taxes are not taxable.

Short-term Rentals. Lessors who rent motor vehicles not requiring recurring periodic payments are required to collect sales tax at the rate in effect at the location in Nebraska where the motor vehicle is received by the lessee. An example of this type of rental would be the rental of a car from an airport car rental facility for a one week trip.

Long-term Leases. Lessors who lease motor vehicles requiring recurring periodic payments must collect sales tax on the total amount of each periodic payment at the rate in effect at the primary property location. The primary property location is the address for the property that is provided by the lessee. Use of the last address provided to the lessor by the lessee is acceptable. This location is not altered by the intermittent use of the motor vehicle at different locations. The lessor must collect the tax beginning with the date the motor vehicle is delivered to the lessee, and for the entire period of the lease. An example of a lease requiring recurring periodic payments would be a three-year lease of a car where the lessee is making monthly payments. More information is available in [Reg-1-019, Rental or Lease of Vehicles](#).

Remitting the Tax. Lessors remit the sales tax collected by filing a [Nebraska and Local Sales and Use Tax Return, Form 10](#). Returns may be filed [electronically](#) from the Department's website. Lessors who lease motor vehicles for periods of 31 days or more to the same customer must complete the Nebraska Schedule I - MVL.

Purchase of Repair Parts for Leased Motor Vehicles. Lessors who are responsible for the upkeep of leased motor vehicles may purchase sales tax exempt (for resale) the repair and maintenance parts for the leased vehicles, provided the repair and maintenance parts become a physical part of the leased vehicle. To purchase these items tax exempt, the lessor must issue to the seller a properly completed [Nebraska Resale or Exempt Sale Certificate for Sales Tax Exemption, Form 13, Section A](#).

Lease Originating in Nebraska

When a lease originates in Nebraska, the Nebraska and any applicable local sales tax continues to apply to the lease payments unless the lessee moves and re-registers the vehicle in another state or taxing jurisdiction within Nebraska. Upon the re-registration and notification of an address change to the lessor, the sales tax rate may change. Unless the lease is amended or renegotiated in some way (for example, a move requiring the vehicle to be re-registered) the original terms of the lease are in effect until the lease expires.

Lease Originating in Another State

When a lease of a motor vehicle originates in another state and the vehicle is registered in Nebraska at a later date, the Nebraska and any applicable local sales tax applies to all lease payments due after the vehicle is registered in Nebraska. If the state of origin continues to tax the lease payments, Nebraska allows a credit for properly paid sales tax to the state of origin. If the tax paid to the other state is greater than or equal to the Nebraska and local sales tax, no additional tax is due in this state. If the tax paid to the other state is less than the Nebraska and local tax due, the lessee owes the difference to this state.

An out-of-state lessor who leases motor vehicles in Nebraska must file a [Nebraska Tax Application, Form 20](#), to obtain a Nebraska Sales Tax Permit. The lessor must collect and remit the Nebraska and local sales tax on the recurring periodic payments at the primary property location of the lessee in Nebraska.

Nebraska use tax is due when a lessee, who lives in Nebraska, takes possession of a motor vehicle under a lease agreement outside Nebraska from an unlicensed lessor, and then brings the motor vehicle into Nebraska and registers it for operation on the highways of Nebraska. Use tax is due on the total dollar amount paid by the lessee to the lessor. A credit will be allowed for the amount of tax properly paid to the state where the motor vehicle was delivered to the lessee.

If the terms of the lease agreement are changed, the total amount paid to the lessor is subject to Nebraska sales tax on the date of the change at the rate in effect at the lessee's primary location.

If the out-of-state lessor is operating under the "lessor's option" (see "Lessor's Option" section below) in Nebraska and has paid tax to the other state on the cost of the vehicle when the vehicle was purchased, a credit is allowed against the Nebraska tax due when the vehicle is registered in Nebraska. No additional tax is due on the lease payments in Nebraska.

If the lessor has paid the tax on an up-front basis in another state but has not elected to operate under the "lessor's option" in Nebraska, no credit is allowed for the tax paid to the other state. The lessor must collect and remit the Nebraska and applicable local sales tax on the lease payments that become due after the vehicle is registered in Nebraska.

Lessor's Option

Lessors, in lieu of collecting and remitting tax on the gross receipts, may elect to pay the sales tax on the cost of all vehicles, including vehicles presently under lease. An exception is made for those vehicles that are currently under lease and used in a common or contract carrier capacity. This election applies to all vehicles leased for periods of one year or more.

A lessor choosing to operate under this election may do so only after filing an [Application for Election of Lessors to Pay Sales and Use Tax on the Cost of Motor Vehicles, Form 15](#), and receiving written approval from the Department. In conjunction with the filing of the Form 15, the lessor must provide a list of all vehicles currently under lease, the terms of the leases, and the model, year, make, and fair market value of the vehicles.

If any of the vehicles currently under lease are used in a common or contract carrier capacity, the lessor must also list those vehicles, the lessee of each vehicle, and the lessee's Nebraska common or contract carrier exemption number.

Lessors operating under this election who lease vehicles both for periods of less than one year and for periods of one year or more, **must** separate taxable lease receipts from nontaxable receipts in their records.

Lease Buy-outs

Lessee Exercises the Buy-out Option. When a lessee exercises a buy-out option contained in a motor vehicle lease, sales tax on the buy-out amount must be paid to the county treasurer at the time of registration or within 30 days of the purchase of the vehicle, whichever comes first. The lessor must issue a [Nebraska Sales/Use Tax and Tire Fee Statement for Motor Vehicle and Trailer Sales, Form 6](#).

Motor Vehicle Dealer Exercises the Buy-out. When a motor vehicle dealer exercises the buy-out option for the lessee, the dealer may purchase the vehicle without sales tax, if the vehicle is being purchased for resale. The dealer must issue a [Form 13](#) to the lessor from whom the motor vehicle is purchased.

No Trade-in Allowed for a Leased Motor Vehicle

If the lessee is purchasing or leasing a different motor vehicle, there is no allowance for a trade-in from a leased vehicle that was not owned by the lessee. Additionally, if the dealer purchases the leased vehicle, a trade-in allowance is **not** allowed on the purchase or lease of another vehicle.

Exemptions

Motor vehicles leased for certain purposes or leased to certain entities are exempt from sales tax. Lease transactions that are exempt from sales tax in this state include leases to:

- ❖ A common or contract carrier holding a valid certificate of exemption issued by the Department;
- ❖ Qualified exempt nonprofit organizations ([Reg-1-090, Nonprofit Organizations](#)) holding a valid certificate of exemption issued by the Department;

- ❖ Religious organizations ([Reg-1-091, Religious Organizations](#)) holding a valid certificate of exemption issued by the Department;
- ❖ Educational institutions ([Reg-1-092, Educational Institutions](#)) holding a valid certificate of exemption issued by the Department; and
- ❖ Qualified governmental units ([Reg-1-093, Governmental Units](#)).

Documenting Exempt Leases. Leases on which sales tax is not collected must be supported by a properly completed [Form 13](#).

Motor Vehicle Tax on Rental Vehicles

The county rental fee (up to 5.75% of the contract amount) on the rental of private passenger vehicles that is collected by the lessor pursuant to [Neb. Rev. Stat. § 77-4501](#), is separate from the sales tax owed on the rental of a motor vehicle and is collected concurrently with the sales tax. The fee is collected by the rental company (lessor) and is used to reimburse the company for the property taxes paid on the vehicles. If the amount of fees collected by the rental company exceed the property tax paid on the vehicle, the excess is remitted to the county treasurer and may be used for any lawful purpose of the county. This fee is not subject to sales tax when separately stated.

Leases to Common or Contract Carriers

Owners/operators who lease their motor vehicles or transportation equipment to common or contract carriers are retailers and must obtain a Nebraska Sales Tax Permit by filing a [Form 20](#). The lease payments collected from common or contract carriers that hold a valid Nebraska Exemption Certificate are sales tax exempt, **provided** a [Form 13, Section B](#), is obtained from the lessee.

Note. The Nebraska exemption certificate for common or contract carriers expires every five years. Form 13 is not valid for expired certificates of exemption. Sales tax must be collected on all other lease receipts that are not properly documented to be sales tax exempt. Lessors are required to file a sales tax return even if there is no tax liability.

Because of the varying tax consequences, it is important that owners of motor vehicles used to transport people or property determine whether or not they have:

- ❖ Entered into a contract to transport people or property for hire; or
- ❖ Entered into a lease agreement.

Resource List

Information Guides

- ❖ [Nebraska and Local Sales and Use Tax](#)
- ❖ [Common or Contract Carriers](#)

Nebraska Sales and Use Tax Regulations

- ❖ [1-019, Rental or Lease of Vehicles](#)
- ❖ [1-069, Common or Contract Carriers](#)

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