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— OF ILLINOIS —

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# Illinois' New Leasing Tax

# Presenters



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# Agenda

- Leasing of TPP Today
- FY 25 Changes & Impact
- Compliance & Other Areas to Consider
- Questions?



# Leasing of TPP Today

- For true/operating leases, tax is not imposed on the lease stream payment
- Lessors pay tax on their upfront cost at the time of acquisition
  - **Lessor:** Deemed to be the end user and owe tax on their purchase or manufacture price
  - **Lessee:** No Illinois sales and use tax implications
- Conditional leases (with buyout option) are treated as sale
- Leases of tangible personal property (TPP) in Chicago will follow other rules



# 2025 Changes & Impact

- Tax will be imposed on a lessee for the lease TPP
  - Due on the periodic lease stream payment
  - Impacts existing, new and renewal leases
  - Excludes titled property (e.g., motor vehicles, boats)
- Two new exemptions have been created
  - Leases of property that are subject to a tax on lease receipts imposed by a local government authority/home rule jurisdiction (i.e., Personal Property Lease Transaction Tax)
  - Licensed software leases that fall under the Illinois five-part test



# 2025 Changes & Impact

- Sourcing impact
  - **Recurring periodic payment on property delivered to lessee:**  
Primary location of TPP (i.e., address provided by lessee)
  - **Other:** Retail sale sourcing rules
- Expanded resale exemption



# 2025 Changes & Impact

- Use & Lease Definitions Changes
  - **Use:** The exercise by any person of any right or power over tangible personal property incident to the ownership of that property, or on and after January 1, 2025, incident to the possession or control of, the right to possess or control, or a license to use that property through a lease.
  - **Lease:** 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. “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.



# Compliance Considerations

- **Lessor**
  - Alleviates some of the complexities around tracking cost price and credit mechanisms on subsequent sales
  - Validate that systems are configured to charge tax correctly
    - Especially with the local rates
- **Lessee**
  - Make sure that vendors are correctly charging the tax, or a self-assessment will be needed
  - Expect this to be a future audit item





## Other Areas to Consider

- System configurations and enhanced record-keeping
  - Ideally for lease payments and equipment locations
- Timing of entering into or renewing lease contracts
- Maximizing credit mechanism now, as it is unlikely to be available in 2025
- Post-2030 when the new exemptions may sunset
  - Potentially open the door for new software taxation in Illinois
- Sourcing location – destination, origin and Chicago



# Questions

