# OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION
TONY MASTIN, DIRECTOR

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June 6, 2006

Re: Our File Number LR-06-025; Sales tax on leases of motor vehicles

Dear Ms. Bailey:

This is in response to your inquiry concerning the subject referenced above.

Please be advised that motor vehicles are subject to a motor vehicle excise tax on the transfer of legal ownership of any vehicle registered in Oklahoma and upon the first registration of any vehicle in Oklahoma pursuant to 68 O.S. Section 2103. However, an original or transfer title will be issued for any vehicle brought into this state by a former resident of another state who has owned and registered the vehicle in the other state at least 60 days prior to the time it is required to be registered in this state without the payment of the excise tax pursuant to 68 O.S. Section 2105.

Furthermore based on the language of 68 O.S. Section 2103, the payment of the registration fee by commercial vehicles registered pursuant to the provisions of the International Registrations Plan (IRP) is in lieu of any sales tax on the stream of lease payments. Additionally Section 1355 of the same Title exempts from sales tax, payments on leases of 12 months or more.

However, if you are the lessor of motor vehicle leases of motor vehicles that are not registered commercially pursuant to the provisions of the IRP and where the original term was less than 12 months, or if you are leasing or renting tangible personal property that includes property that are <u>not</u> motor vehicles, an Oklahoma sales or use tax liability will exist.

For those items that are not motor vehicles that are not subject to leases or rental agreements, on which sales or use tax was paid on the purchase price upfront, a credit can be taken on the use tax due in Oklahoma, by taking a credit of state tax rate against state tax rate, city tax rate against city tax rate and county tax rate against county tax rate. If any Oklahoma jurisdiction's tax rate is higher than the tax rate at which the tax was paid previously, the tax is

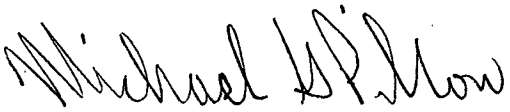
due to that jurisdiction at the difference in the rates. Please see Oklahoma Tax Commission Rule 710:65-21-20.

If the items which are not motor vehicles are subject to rental agreements or to leases or if they are motor vehicles that are not registered as commercial motor vehicles and they are subject to rentals or leases of less than 12 months, then the lease or rental payments are subject to Oklahoma state and any applicable local sales tax based on the primary Oklahoma location of the property or of the vehicles for the period covered by each payment. The sourcing for these types of transactions are governed by rule 710:65-18-4.

This response applies only to the circumstances set out in your request of January 30, 2006. Pursuant to Commission Rule 710:1-3-73(e), this Letter Ruling may be generally relied upon **only** by the entity to whom it is issued, assuming that all pertinent facts have been accurately and completely stated, and that there has been no change in applicable law.

If I can be of further assistance, please feel free to contact me.

Sincerely,
OKLAHOMA TAX COMMISSION



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