



COLORADO

Department of Revenue

Taxation Division

Office of Tax Policy
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Denver, CO 80217-0087

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PLR 26-001

April 20, 2026

XXXXXXXXXX
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Via Electronic Mail: XXXXXXXXXXXX

Re: Sales Tax on Up-Front Lease Payments

Dear XXXXXXXXXXXX:

You submitted a request for a private letter ruling on behalf of XXXXXXXXXXXX ("Company"), to the Colorado Department of Revenue ("Department") pursuant to 1 CCR 201-1, Rule 24-35-103.5. This letter is the Department's private letter ruling. This ruling is binding on the Department to the extent set forth in 1 CCR 201-1, Rule 24-35-103.5. It cannot be relied upon by any taxpayer other than the taxpayer to whom the ruling is made.

Issues

1. Whether any up-front lease payment made to Company as part of a motor vehicle lease that requires recurring periodic payments is sourced, like all recurring periodic payments, to the primary property location.
2. Whether Company must collect all applicable state-administered local sales taxes—as opposed to use taxes—on any up-front lease payment made to Company as part of a motor vehicle lease that requires recurring periodic payments.
3. Whether Company must remit to the county clerk with form DR 0026, or instead with their monthly sales tax return (form DR 0100), any applicable state-administered local sales taxes collected on up-front lease payments for jurisdictions in which Company is not physically located.

Conclusions

1. Any up-front lease payment made to Company as part of a motor vehicle lease that requires recurring periodic payments is sourced, like all recurring periodic payments, to the primary property location.
2. Company must collect all applicable state-administered local sales taxes—as opposed to use taxes—on any up-front lease payment made to Company as part of a motor vehicle lease that requires recurring periodic payments.
3. Company must remit to the county clerk with form DR 0026 any applicable state-administered local sales taxes collected on up-front lease payments for jurisdictions in which Company is not physically located.

Background¹

Company is a dealer of motor vehicles with physical locations in Colorado. As part of its business activities, Company enters into lease agreements with individual lessees who reside in Colorado for the lease of passenger motor vehicles for their personal use. The lessee may reside in a jurisdiction which the dealer is not physically located. The term of a lease agreement is generally three years or less, with the lessee required to make monthly payments over the duration of the lease. At the time of signing the lease agreement, the lessee may make an up-front payment to the Company for the lease, made up of multiple components such as a capitalized cost reduction, the first monthly payment, and titling and registration fees. The Company has a sales tax license in Colorado.

The Company has both captive leases and leases that are transferred or assigned to third parties after signing. In the case of a captive lease, upon signing the lease agreement the vehicle's title is transferred from the Company to an Affiliated Leasing Entity. The lease is then serviced by an Affiliated Financing Entity, which is the sole beneficiary of the Affiliated Leasing Entity.

Discussion

The Colorado Revised Statutes impose a sales tax upon all sales of tangible personal property at retail.² The term "sale" includes any transaction whereby a person transfers for consideration all or part of any interest in tangible personal property and encompasses all transactions involving the conditional or absolute transfer of title to or possession of tangible personal property (or both) for consideration.³ The term includes, therefore, leases and other contracts transferring the right to continuous possession or use of tangible personal property.

Any up-front lease payment made to Company as part of a motor vehicle lease that requires recurring periodic payments is sourced, like all recurring periodic payments, to the primary property location. Colorado sales tax law provides rules for determining where a sale of tangible personal property is made.⁴ The statute establishes specific rules for sourcing leases or rentals of motor vehicles, such as passenger motor vehicles for personal use, that do not qualify as "transportation equipment."⁵ For a lease or rental that requires recurring periodic payments, each periodic payment is sourced to the primary property location.⁶ Up-front lease payments made pursuant to a lease that requires recurring periodic payments are sourced in the manner as all payments made pursuant to the lease.⁷

Company must collect all applicable state-administered local sales taxes—as opposed to use taxes—on any up-front lease payment made to Company as part of a motor vehicle lease that requires recurring periodic payments. Any lessor that is doing business in Colorado must collect state sales tax and any

¹ Paragraph (4)(b)(ii) of 1 CCR 201-1, Rule 24-35-103.5 requires the request for a private letter ruling to include a statement of facts. This section generally recites the statement of facts provided in the initial request or in any supplement or amendment thereto, which is not an indication that the Department found such facts relevant to its analysis. Some relevant facts may be redacted or omitted to ensure confidentiality as required by section 24-35-103.5(5), C.R.S. The terms used in this section to describe the factual background are generally those of the requester.

² Section 39-26-104(1)(a), C.R.S.

³ 1 CCR 201-4, Rule 39-26-102(10).

⁴ Section 39-26-104(3), C.R.S.

⁵ Section 39-26-104(3)(b)(II), C.R.S. "Transportation equipment" is defined in section 39-26-104(3)(d)(III), C.R.S., and does not include passenger motor vehicles for personal use. Leases and rentals of transportation equipment are sourced separately under section 39-26-104(3)(b)(III), C.R.S.

⁶ *Id.* at (3)(b)(II)(A).

⁷ *Id.* Although Colorado is not a member of the Streamlined Sales and Use Tax Agreement, the sourcing rules in section 39-26-104(3), C.R.S., are taken directly from Section 310 of the Streamlined Sales and Use Tax Agreement. In its [Interpretation 2006-03](#), the Compliance Review and Interpretations Committee recommended that "the Agreement should be interpreted to include payments received at the inception of a lease (down payments, rebates or other potentially taxable receipts) as periodic payments and sourced to the primary property location consistent with the sourcing of the remaining periodic payments." The committee explained that it "believed that the intent of the original sourcing rule was to establish a single location for sourcing all payments."

applicable state-administered local sales tax on all retail sales the retailer makes in Colorado.⁸ Company is a lessor doing business in Colorado and must collect all applicable state-administered local sales taxes on any up-front lease payment. Retailers that properly collect on a sale or lease payment the required state-administered sales tax for a local jurisdiction are not required to collect use tax for that same local jurisdiction on that same sale or lease payment.⁹

Company must remit to the county clerk with form DR 0026 any applicable state-administered local sales taxes collected on up-front lease payments for jurisdictions in which Company is not physically located. Ordinarily, a retailer must remit with their Colorado Retail Sales Tax Return (form DR 0100) all applicable state and state-administered local sales taxes the retailer was required to collect for the tax period. However, if the auto dealer has no physical location from which they make retail sales within the same city, county, or special district as the primary property location for the motor vehicle—and the dealer has not set up a non-physical location for that jurisdiction in connection with their Colorado sales tax account¹⁰—the dealer must instead remit the collected sales tax for that jurisdiction with form DR 0026.

Miscellaneous

This ruling is premised on the assumption that Company has completely and accurately disclosed all material facts, that all representations are true and complete, and that Company has otherwise complied with the requirements of section 24-35-103.5, C.R.S., and the rules promulgated pursuant thereto. The Department reserves the right, among others, to independently evaluate Company's facts, representations, and assumptions. The ruling is null and void if any such fact, representation, or assumption is incorrect and has a material bearing on the conclusions reached in this ruling. This ruling is binding on the Department, and is subject to modification or revocation, in accordance with 1 CCR 201-1, Rule 24-35-103.5.

The Department administers state and state-administered local sales and use taxes. This letter does not address sales and use taxes administered by self-collected home-rule cities. You may wish to consult with those local governments that administer their own sales or use taxes about the applicability of those taxes. Visit our website at Tax.Colorado.gov for more information about state and local sales taxes.

Thank you for your request.

Sincerely,

Office of Tax Policy
Colorado Department of Revenue

This ruling cannot be relied upon by any other taxpayer other than the taxpayer to whom the ruling is made.

⁸ Sections 39-26-104(1)(a) and -106(2)(a), C.R.S. A lessor entering into leases which are "sales" for Colorado sales tax purposes is a "retailer" as defined in section 39-26-102(8), C.R.S., for Colorado sales tax purposes. Anyone "leasing . . . in this state . . . tangible personal property . . . by a retail sale" who "maintain[s] within this state, directly or indirectly or by a subsidiary" any place of business is "doing business in this state." Section 39-26-102(3), C.R.S. All state-administered local sales taxes are collected in the same manner as state sales taxes. Section 29-2-203(1), C.R.S.

⁹ Section 29-2-109(1)(a), C.R.S.

¹⁰ See Tax.Colorado.gov/add-locations-sites-to-your-sales-tax-account for information about setting up non-physical locations for a Colorado sales tax account.