

In general, leases of tangible personal property are considered retail sales and are subject to Colorado and state-administered local sales taxes. Any lessor that leases property in Colorado and collects sales tax must comply with certain requirements relating to licensure, registration, collection, filing, and remittance. Different rules and requirements apply depending on whether the lease is a long-term lease or short-term lease.

This publication is designed to provide general guidance regarding the tax treatment of leases. Nothing in this publication modifies or is intended to modify Colorado's statutes and regulations authorizing these exemptions. Taxpayers are encouraged to consult their tax advisors for guidance regarding specific situations.

The information in this publication applies to state and local sales and use taxes administered by the Department but not to any city sales or use taxes administered by any home-rule cities. Please contact any applicable home-rule city directly for information about their sales and use taxes. Contact information for home-rule cities can be found in Department publication [Colorado Sale/Use Tax Rates](#) (DR 1002).

For additional information about motor vehicle leases, see Department publication [Sales & Use Tax Topics: Motor Vehicle Leases](#).

Leases

For Colorado sales and use tax purposes, a lease is the transfer of the right to continuous possession or use of tangible personal property for a term in return for consideration. However, the following types of transactions are not leases for Colorado sales and use tax purposes:

- A sale whereby title of the property passes from the seller to the buyer;
- Any transfer or transaction excluded from the meaning of the term "sale" under section 39-26-102(10), C.R.S.;
- A sale-leaseback transaction that is not treated as a lease under [Special Rule 46\(6\)](#), discussed later in this publication; or
- Any service contract under which a service is provided to the end consumer through the use of a vehicle or equipment operated exclusively by the person providing the service or their employee or contractor.

Effect of lease duration

The tax treatment of lease payments, and the taxability of the lessor's acquisition of the property for lease, is determined, in part, by the duration of the lease.

Long-term leases

A long-term lease is any lease exclusively to one lessor for a term of more than 36 months. Any renewal or extension of a lease is not considered in determining the duration of a lease term. The renewal or extension is evaluated separately to determine whether it is a short-term lease or long-term lease.

If a bona fide long-term lease is terminated early, such early termination will not affect the treatment of the lease as a long-term lease. A lease that is not a bona fide long-term lease is a short-term lease.

Taxability of long-term lease payments

Long-term lease payments are taxable, and the lessor must collect all state and state-administered local sales taxes from the lessee on all payments made pursuant to the lease, regardless of whether the lessor paid any sales or use tax when purchasing the property.

Lessor's acquisition of property for long-term lease

A lessor's purchase of property for a long-term lease is a tax-exempt wholesale sale only if it falls within the definition of a "wholesale sale" and meets the requirements for exemption in sections in section 39-26-102(19)(a) and 39-26-713(2)(b), C.R.S., respectively. The wholesale sale exemption applies only if the primary purpose for acquiring the property, by objective standards, is to lease the property in an unaltered condition and basically unused by the lessor. See [Special Rule 46\(3\)\(a\)](#) in [1 CCR 201-5](#) for additional information about requirements for the wholesale sale exemption.

If the lessor uses or intends to use the property, the exemption does not apply, and the lessor must pay sales or use tax on the full purchase price of the property at the time of purchase.

Short-term leases

A short-term lease is any lease for a term of 36 months or less. Any renewal or extension of a lease is not considered in determining the duration of a lease term. The renewal or extension is evaluated separately to determine whether it is a short-term lease or long-term lease.

Taxability of short-term lease payments

In general, short-term lease payments are taxable and the lessor must collect all state and state-administered local sales taxes from the lessee on all payments made pursuant to the lease. However, a lessor is not required to collect sales tax on lease payments for short-term leases if the lessor paid all applicable sales and/or use taxes on the purchase of the property.

Lessor's acquisition of property for short-term lease

A lessor may purchase property for a short-term lease tax-free only if the Department has granted the lessor written permission to do so. A lessor may request such permission only if they agree to collect all applicable Colorado and state-administered local sales taxes on the lease payments.

The Department will grant permission with respect to a lessor's acquisition of property for short-term lease only if the acquisition falls within the definition of a "wholesale sale" and meets the requirements for exemption in sections in section 39-26-102(19)(a) and 39-26-713(2)(b), C.R.S., respectively. Permission to acquire property tax-free applies only if the primary purpose for acquiring the property, by objective standards, is to lease the property in an unaltered condition and basically unused by the lessor. See [Special Rule 46\(3\)\(a\)](#) and (3)(b) in [1 CCR 201-5](#) for additional information.

A lessor who wishes to request permission to acquire property for a short-term lease tax-free must file a [Lessor Registration for Sales Tax Collection](#) (DR 0440) prior to purchasing the property. If a lessor purchases property for short-term lease prior to receiving permission from the Department to purchase it tax-free, the lessor must pay all applicable Colorado and state-administered local sales taxes at the time of purchase. If the seller does not collect from the lessor the applicable Colorado and state-administered local sales taxes at the time the lessor purchases the property, the lessor must remit the applicable use taxes to the Department.

See [Special Rule 46\(3\)\(b\)](#) in [1 CCR 201-5](#) and the instructions for form DR 0440 for additional information.

Subleases

A sublease is any lease of tangible personal property the right to possession or use of which was acquired by the lessor as a lessee under an existing lease. Lease payments for subleases are subject to sales tax in the same manner as payments for any other lease. The taxability of sublease payments depends, in part, on whether the sublease is a short-term or long-term lease, as discussed earlier in this publication. See [Special Rule 46\(5\) in 1 CCR 201-5](#) for additional guidance regarding the tax treatment of subleases.

Sale-leaseback transactions

In general, sale-leaseback transactions that serve to finance the purchase of property are not considered leases for sales tax purposes, nor is the transfer of title by the seller/lessee to the purchaser/lessor treated as a sale. Any person that acquires tangible personal property for their own use must pay the applicable sales or use tax on such acquisition, regardless of whether they subsequently enter into a sale-leaseback transaction for the property. In determining whether a sale-leaseback transaction is treated as a lease for sales tax purposes, substance, not form, shall govern.

Taxable charges

In general, all payments made pursuant to a lease contract, including any associated charges, are subject to sales tax. See Part 3 of the [Colorado Sales Tax Guide](#) for additional information.

No credit is allowed against any state or state-administered local sales tax imposed on lease payments for any tax paid to another state.

For lease contracts between a lessor and lessee that consist of the supplying of tangible personal property and services in connection with the maintenance or servicing of the same, see section 39-26-105(4), C.R.S.

Sourcing lease payments

Taxable lease payments are subject to Colorado sales tax if they are sourced to Colorado under Colorado law. These sourcing rules also determine the applicability of any state-administered local sales taxes.

- 1) In general, periodic lease payments are sourced to the primary property location for each period covered by the payment. The primary property location is generally the address for the property provided by the lessee to the lessor.
- 2) If the leased property is not a motor vehicle, trailer, semi-trailer, or aircraft, the first periodic payment is sourced to the location at which the lessee takes possession of the leased property, either at the lessor's business location or at another location.
- 3) For a lease that does not require recurring periodic payments, the payment is sourced to the location at which the lessee takes possession of the leased property, either at the lessor's business location or at another location.
- 4) The preceding sourcing rules do not generally apply to trains, trucks, buses, or aircraft used to transport people or property in interstate commerce. Instead, leases of such property are generally sourced to the location at which the lessee takes possession of the leased property, either at the lessor's business location or at another location.

If the primary property location for the leased property changes during the lease term, the state and state-administered local sales taxes due on subsequent lease payments will be based upon the new location for the property.

See section 39-26-104(3)(b), C.R.S., for additional information about sourcing lease payments.

Lessor responsibilities

A lessor is generally considered a retailer for Colorado sales tax purposes and has all of the liabilities, obligations, and rights of a retailer under Colorado law. See the [Colorado Sales Tax Guide](#) for detailed information about licensing, tax collection, return filing, and remittance requirements.

Licensing and registration

Any lessor required to collect sales tax must apply for and maintain an active sales tax license and submit a completed [Lessor Registration for Sales Tax Collection](#) (DR 0440). The lessor must submit with their completed DR 0440 an attachment listing the location/jurisdiction codes for each jurisdiction for which the lessor will be collecting sales tax. See [Location/Jurisdiction Codes for Sales Tax Filing](#) (DR 0800), Part 5 of the [Colorado Sales Tax Guide](#), and [Sales Tax Accounts & Licenses](#) for additional information.

Sales tax collection

Lessors must collect Colorado and all applicable state-administered sales taxes on all taxable lease payments. If a lessor sells previously leased property, they must collect Colorado and state-administered local sales taxes in the same manner as any other sale of used property.

Additional resources

The following is a list of statutes, regulations, forms, and guidance pertaining to sales tax on leases. This list is not, and is not intended to be, an exhaustive list of authorities that govern the tax treatment of every situation. Individuals and businesses with specific questions should consult their tax advisors.

Statutes and regulations

- § 39-26-102, C.R.S. Definitions.
- § 39-26-103, C.R.S. Licenses.
- § 39-26-104, C.R.S. Property and services taxed.
- § 39-26-713, C.R.S. Tangible personal property.
- Rule 39-26-102(9). Retail sales.
- Rule 39-26-102(10).
- Rule 39-26-102(19).
- Special Rule 46. Leases.

Forms and guidance

- [Tax.Colorado.gov](#)
- [Colorado Sales Tax Guide](#)
- [Sales Tax Accounts & Licenses](#)
- [Lessor Registration for Sales Tax Collection](#) (DR 0440)
- [Location/Juris. Codes for Sales Tax Filing](#) (DR 0800)
- [Colorado Sale/Use Tax Rates](#) (DR 1002)