

Under certain circumstances, a lease of tangible personal property in Colorado is treated as a sale and the lessor must collect sales tax from the lessee on all payments made pursuant to the lease. In other cases, the lessor is required to pay any applicable state and local sales and/or use taxes on the lessor's acquisition of the property, but is not required to collect sales tax on the lease payments. The taxation of leased property depends generally on the duration of the lease term and whether the lessor has received permission from the Department to collect sales taxes on leases of 36 months or less.

A contract pursuant to which a contractor performs a service for a customer using equipment owned by the contractor is not considered a lease of the equipment by the customer and is not subject to the tax requirements discussed in this publication.

Effect of lease duration

The duration of the lease term partially determines the tax treatment of the lease. Different rules apply depending on whether the lease term is more or less than 36 months.

Leases greater than 36 months

If a lease is for a term of greater than 36 months, the lessor must collect all state and state-administered local sales taxes from the lessee on all payments made pursuant to the lease. The lessor's acquisition of the property is considered a wholesale sale and is not subject to sales or use tax.

Leases of 36 months or less

If the lease term is 36 months or less, the lessor must pay sales and/or use taxes, as applicable, on the full purchase price the lessor paid for the acquisition of the property, unless the lessor has received permission from the Department to collect all applicable state and state-administered local sales taxes on all payments made by the lessee pursuant to the lease. The lessor may request such permission from the Department by filing the Permit to Collect Sales Tax on The Rental or Lease Basis (DR 0440). The permission to collect sales tax on lease payments, if granted by the Department, obligates the lessor to collect sales tax on all leases made by the lessor for terms of 36 months or less.

The lessor must apply for a sales tax license and for permission to collect sales tax prior to acquiring the tangible personal property that is to be leased. A lessor who has received permission from the Department to collect sales tax on leases of 36 months or less will owe no sales or use tax on the acquisition of tangible personal property for lease.

If the lessor has not received permission to collect tax prior to the acquisition of any property that will be leased for a term of 36 months or less, the lessor must pay sales tax to the seller at the time of acquisition and any applicable use tax if the seller does not collect sales tax. If immediately thereafter the lessor obtains a license and files a DR 0440, the lessor may apply for a refund of sales and/or use tax paid for the lessor's acquisition of the property.



Taxable charges

In general, all payments made pursuant to a lease contract, including any associated charges, are subject to sales tax. See *Part 3: Calculation of Tax* in the *Colorado Sales Tax Guide* for additional information.

If a lessor's lease transactions consist of the supplying of both tangible personal property and maintenance services for such property, the lessor may request permission from the Department to collect sales tax only on that percentage of the full contract price attributable to the lease of the tangible personal property under the contract.

Lessor registration requirements

Any lessor that will be collecting sales tax must apply for and maintain an active sales tax license and submit a completed Permit to Collect Sales Tax on the Rental or Lease Basis (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)*, and [Colorado.gov/pacific/tax/sales-tax-account-license](https://colorado.gov/pacific/tax/sales-tax-account-license) for additional information.

Motor vehicle leases

For any motor vehicle lease, the lessor or motor vehicle dealer from whom the lessor acquired the vehicle must complete a Statement of Sales Taxes Paid on Motor Vehicle Leases (DR 0026). The lessor or dealer must submit a copy of the completed DR 0026 along with the titling paperwork to the county clerk in the county in which the vehicle will be registered.

Sourcing lease payments

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 or rental 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.

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

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.
- § 39-26-113, C.R.S. Collection of sales tax - motor vehicles.
- § 39-26-208, C.R.S. Collection of use tax - motor vehicles.
- § 39-26-713, C.R.S. Tangible personal property.
- Regulation 39-26-102(9). Retail sales.
- Reg. 39-26-102.19, 1 CCR 201-4.
- Reg. 39-26-713.1(a), 1 CCR 201-4.

Forms and guidance

- [Colorado.gov/Tax](https://colorado.gov/Tax)
- [Colorado.gov/tax/sales-tax-basics](https://colorado.gov/tax/sales-tax-basics)
- [Colorado.gov/tax/local-sales-use-tax-by-address](https://colorado.gov/tax/local-sales-use-tax-by-address)
- Statement of Sales Taxes Paid on Motor Vehicle Leases (DR 0026)
- Permit to Collect Sales Tax on The Rental or Lease Basis (DR 0440)
- Location/Jurisdiction Codes for Sales Tax Filing (DR 0800)

Nothing in this publication modifies or is intended to modify the requirements of Colorado's statutes and regulations. Lessors, lessees, and taxpayers are encouraged to consult their tax advisors for guidance regarding specific situations.