

**STATE BOARD OF EQUALIZATION**

1020 N STREET, SACRAMENTO, CALIFORNIA  
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January 6, 1989

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Dear Ms. ---:

This is in response to your request that we analyze the following facts and render our opinion as to whether or not the so-called "capitalized cost reduction" amounts paid by the lessee are subject to tax under the California Sales and Use Tax Law.

Facts

"A lessor and lessee enter into a long-term lease of a passenger motor vehicle. At lease inception, the lessee pays a number of fees including the first month's rent and a security deposit. He may also pay an initial sum of money (called a 'capitalized cost reduction') which reduces the vehicle's capitalized cost. At no time is the capitalized cost reduction applied as a rental payment for a specific rental period. The leased vehicle's title lists the lessor-lessee relationship, and the lessor chooses to pay tax on a monthly basis (measured by rental receipts) instead of paying sales tax on the full purchase price."

Opinion

The lease in question is a "sale" and "purchase" under California law (see Revenue and Taxation Code §§ 6006, 6010). With few exceptions (see Regulation 1660(c)(1), copy enclosed), all amounts required to be paid pursuant to such a lease are subject to tax (See Revenue and Taxation Code §§ 6009, 6011, 6012, 6051, 6091, 6201, 6457; Culligan Water Conditioning v. State Board of Equalization, 17 Cal. 3d 86). Without specific statutory or regulatory authority to exclude the so-called "capitalized cost reduction" amounts payable by the lessee under terms of the lease in question, such amounts are clearly subject to tax (see Bar Master, Inc. v. State Board of Equalization, 65 Cal. App. 3d 408; Coast Elevator Co. v. State Board of Equalization, 44 Cal. App.3d 576). Finally, we note that although it is not altogether clear from your description, it would appear that the affect of the so-called "capitalized cost reduction" payment is to reduce the rental amounts otherwise normally payable by the lessee thereafter. If this is the case, we would view such payment to be in the nature of an advance rental payment subject to tax upon receipt by the lessor (see Business Taxes Law Guide Annotation 330.1830).

Ms. ---

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Very truly yours,

E. L. Sorensen, Jr.  
Senior Tax Counsel

ELS:jb  
Enclosure