

**701—32.11(423) Exemption for vehicles purchased for rental or lease.**

**32.11(1)** On and after July 1, 1992, the use of a vehicle subject to registration in any state is exempt from tax if the following conditions exist:

*a.* The vehicle is purchased for rental by a person regularly engaged in the business of renting vehicles, or is registered and titled for rental use by a motor vehicle dealer licensed under Iowa Code chapter 322; and

*b.* The vehicle is held for rental for a period of 120 days or more and actually rented for periods of 60 days or less by a person regularly engaged in the business of renting vehicles, including a motor vehicle dealer licensed under Iowa Code chapter 322 who rents automobiles to users; and

*c.* All rentals are subject to taxation under Iowa Code chapter 422C. See 701—Chapter 27 for information concerning rentals.

**32.11(2)** Long-term lease. On or after January 1, 1997, the use of a vehicle subject to registration in this state is exempt from tax if the following conditions exist:

*a.* The vehicle subject to registration is purchased for lease and titled by a lessor licensed pursuant to Iowa Code chapter 321; and

*b.* The vehicle has a gross vehicle weight rating of less than 16,000 pounds; and

*c.* The vehicle is actually leased for a period of 12 months or more; and

*d.* The lease is subject to taxation under Iowa Code section 423.7A. See rule 701—31.5(423) regarding long-term leases.

A lessor may maintain the exemption from use tax under Iowa Code section 423.4(16) for a 12-month qualifying lease that terminates at the conclusion of or prior to the contracted expiration date, if the lessor does not use the vehicle for any purpose other than for lease. Unless an exemption applies, once the vehicle is used by the lessor for a purpose other than for lease, the exemption from use tax under Iowa Code section 423.4(16) no longer applies and use tax is due on the fair market value of the vehicle, payable to the Iowa department of revenue (e.g., if the vehicle is used by the lessor as a company car). If a vehicle is subsequently leased and subject to tax, tax will be due and owing on any subsequent lease transaction. However, if a lessor exclusively maintains the vehicle for sale, then use tax is due on the purchase price of the vehicle at the time of sale and the tax is due and payable under the provisions of Iowa Code chapter 423.

This rule is intended to implement Iowa Code section 423.4(16) as amended by 1996 Iowa Acts, chapter 1125.