Leased Vehicle Buyouts

Effective: Immediately

Transfer of Ownership of Leased Vehicle Transfer—Lease Termination Buyout

To prevent a vehicle from being reclassified and assigned a new vehicle license fee (VLF) class in error:

- The name(s) of the current lessee(s) must be compared to the name(s) of the new registered owner(s).
- For dealer transactions, dealers must submit a Statement of Facts (REG 256) form whenever the current lessee(s) is buying out the lease, and make a lease termination notation on the Certificate of Title and the Report of Sale—Used Vehicle (REG 51) form whenever the current lessee(s) is buying out the lease.

Procedures

When a vehicle is being transferred from a lessor (LSR)/lessee (LSE), determine if the application is a lease termination/buyout to the LSE by checking if the name(s) of the current LSE(s) on Department of Motor Vehicles (DMV) records is the same as the new registered owner and:

- If the name(s) of the LSE(s) on DMV records is the same as the new registered owner(s):
  - Do not reclassify the VLF class, unless a nonfamily member is also being added or deleted. If the current LSE is adding or deleting a co-owner, a REG 256 is required from the LSE, with Section A (Use Tax Exemption) and Section B (Statement for Smog Exemption) completed.
  - If the first name (and middle name/initial, if applicable) matches, but the last name does not, determine if the individual changed their last name (due to a marriage, divorce, etc.):
    - If the new owner is determined to be the LSE with a name change, a REG 256 is required from the LSE, with Sections B and F (Name Statement) completed.
  - If the vehicle is being transferred to the same LSE and the application contains a report of sale (ROS), the dealer must submit all of the following:
    - A REG 256 with Sections B and G (Statement of Facts) completed, which state that the current lessee(s) is buying out the lease and the lease payoff amount.
    - Clearly understood lease termination notations, such as “Lease Payoff,” “Lease Buyout,” etc., must be made in the upper-left corner of the ROS and above the new registered owner, such as on the reverse of the Certificate of Title (or Application for Duplicate [REG 227] form).

If the “lease buyout/payoff” REG 256 is not submitted, and/or the ROS and Certificate of Title are not marked with the notation, the application will be returned to the dealer on a report of deposit of fees (RDF).

- If the name of the LSE(s) is different from the new registered owner(s) and the transaction is not a lease buyout, the VLF class must be reclassified.
Procedures, continued

NOTE: Use tax is due on the lease buyout amount, unless the application contains an ROS or REG 256 completed and signed by the LSR which states all of the following:
- LSE bought out the lease.
- LSR collected tax on the lease payoff.
- Payoff amount.
- Amount of tax collected.
- LSR’s Board of Equalization (BOE) tax identification number.

Use the applicable UT/RECLASS code found in the VR DART, Chapter 2.

Background
The transfer of a leased vehicle from the lessor to the lessee is exempt from VLF reclassification. However, some leased vehicles have been reclassified in error. Errors will be reduced by comparing name(s) and, for dealer transactions, requiring a “lease buyout/payoff” REG 256. The Vehicle Industry Registration Procedures Manual will be updated to reflect the new information.

Distribution
Notification that this memo is available online, at www.dmv.ca.gov under Publications was made via California DMV’s Automated E-mail Alert System in September 2016.

References
California Revenue and Taxation Code §10753(b)
Vehicle Industry Registration Procedures Manual §§11.020 and 11.095
VR DART, Chapter 2

Contact
Call the DMV Customer Communications Section, at (916) 657-6560 for further clarification of this memo. Upon request, this document can be produced in Braille or large print.

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