

State of Rhode Island - Division of Taxation

Sales and Use Tax

Regulation SU 97-133

Use of Motor Vehicles by Dealers

I. General Rule

The purchase of a motor vehicle, trailer or other vehicle by a licensed motor vehicle dealer who purchases the vehicle for resale in the regular course of business is exempt from the sales and use tax. During the period in which the vehicle is held for resale, the dealer may use it for demonstration or display without incurring a liability for sales or use tax. If a vehicle is used by a licensed motor vehicle dealer for purposes other than demonstration or display, a tax is due on the total cost of the vehicle.

II. Use of Dealer Plates

A motor vehicle, trailer or other vehicle bearing a dealer license will be subject to tax if that vehicle is used for purposes other than demonstration and display. The following uses of vehicles bearing dealer plates are held to constitute demonstration and display:

1. Vehicles driven by sales personnel.
2. Vehicles driven by bona fide employees other than sales personnel whose duties include generating sales and/or assisting the sales department in selling vehicles.
3. Vehicles driven by potential buyers for purposes of a test drive.
4. Vehicles transported by the dealership to and from auctions, car swaps, etc.
5. Vehicles driven by technicians for road test purposes.

The use of vehicles enumerated in numbers 1 and 2 above, are held to constitute demonstration and display even though used on public thoroughfares and after work since the visibility of the vehicles can stimulate customer interest and the drivers of those vehicles are sales personnel or other bona fide employees of the dealer whose duties include assisting the sales department in selling vehicles. In order for the operation of the vehicles to be deemed demonstration and display, such operation is limited to a geographical area in which potential buyers would normally be located.

III. Dealer Registered Vehicles

Franchised new car dealers holding a valid sales tax permit may register new vehicles in the name of the dealer upon payment of a tax based on one-third (1/3) of the cost of the vehicle to the dealer provided that said vehicle is acquired for resale by the dealer and the use of the vehicle is limited to demonstration and display as defined in paragraph II, above.

IV. Loaners

If a motor vehicle dealer which is also engaged in leasing/renting vehicles on a daily or other basis elected to collect the sales tax upon lease/rental of the rental fleet vehicles subsequently allows the use of loaners from the rental fleet, the dealer will be liable for a use tax based upon the fair market rental fee normally charged to customers for the rental of the same vehicle. In order to qualify as a lease/rental vehicle, the vehicle must be registered and titled to the dealer as part of its rental fleet.

A motor vehicle dealer that allows its customers the use of a vehicle from its inventory while the customer's own vehicle is being serviced or repaired shall be liable for a use tax to be computed at the rate of .15 percent (.0015) of the list price of the vehicle for each day that the vehicle is used as a loaner.

Provided, however, this provision shall only apply to loaners that comply with the provisions of R.I.G.L. 31-3-20. The surcharge imposed under Chapter 34.1 of Title 31 shall not apply to loaners taken from the dealer's inventory.

Download the [Affidavit Re: Regular Registration of Demonstrators by Motor Vehicle Dealer](#).

R. GARY CLARK
TAX ADMINISTRATOR

EFFECTIVE: January 1, 1997

THIS REGULATION AMENDS AND SUPERCEDES REGULATION SU 91-133
PROMULGATED JANUARY 1, 1992.