

State Of Rhode Island – Division Of Taxation

Sales and Use Tax

Regulation SU 03-72

Motor Vehicles – Trade-In Allowance

The Rhode Island sales and use tax law provides that the amount of the trade in allowance of a private passenger automobile when given in trade toward the purchase of a new or used private passenger automobile is excluded from the measure of the use tax.

A passenger automobile shall be deemed a motor vehicle carrying passengers other than for hire, if the Registry of Motor Vehicles registers the vehicle as a private passenger automobile. Hearses and other automobiles used chiefly in connection with the conduct of funerals are not considered “automobiles for hire” and therefore qualify for the trade-in allowance.

Rhode Island motor vehicle dealers who are required to add and collect a tax on the sale of motor vehicles to nonresidents are allowed to take into consideration the law of the state of the nonresident as it relates to the trade-in of motor vehicles.

A separate or independent sale of an automobile to a third party by the purchaser of a new or used private passenger automobile from a dealer is not a trade-in even if the proceeds from the third party sale are immediately applied by the seller to the purchase of a private passenger automobile from a dealer. A sale shall be deemed a separate or independent sale if one or more of the following events occur:

- a. the third party buyer of the automobile pays the seller, and not the dealer, for the automobile;
- b. the dealer does not take physical possession of the automobile;
- c. title does not pass to the dealer.

Notwithstanding the prior paragraph, when a taxpayer "trades-in" a private passenger automobile that is used as a capital cost reduction on the lease of a private passenger automobile, the amount of the reduction attributable to said trade-in is not subject to the tax.

Any dealer or salesman who wilfully misstates information on a document that is required for the proper computation of the use tax on a motor vehicle is subject to the penalty provisions set forth in section 44-19-31 of the sales and use tax law.

R. GARY CLARK
TAX ADMINISTRATOR

EFFECTIVE: JANUARY 1, 2003

CROSS REFERENCE: REGULATION SU 90-131

THIS REGULATION AMENDS AND SUPERCEDES REGULATION SU 99-72
PROMULGATED JANUARY 1, 1999.