

State of Rhode Island - Division of Taxation

Sales and Use Tax

Regulation SU 92-62

Rentals and Leases of Tangible Personal Property

I. In General

The receipts or proceeds derived from the rental or lease of tangible personal property are subject to sales and use taxes.

Rental or lease means the agreeing by the owner to give exclusive use of property to another for a consideration and for any period of time under any one agreement.

The tax shall be computed on the gross amount without any allowance for service, maintenance, insurance, property taxes, etc., whether paid by the lessor or lessee.

Each period for which a rental or lease charge is made shall be considered a complete sale for the purpose of the imposition, collection and payment of sales or use taxes. For example, in the case of a weekly rate, each week shall be considered a complete transaction. In the case of continuing rentals or leases with or without a definite expiration date, the tax shall be due for each complete period for which a regular installment is paid.

Payment of a sales or use tax by a contractor or other lessor on equipment purchased for his/her own use and so used does not exempt subsequent rentals or leasing of the equipment from the sales tax.

Examples of transactions not considered rentals or leases:

- (1) The furnishing of equipment with an operator shall be considered a service.
- (2) Linen and towel suppliers are the taxable consumers of linens, towels, etc., rented or leased to their customers, including out-of-state customers or exempt organizations, since the essential character of this type of rental or lease is the furnishing of the recurring service of laundering or cleaning such articles. No tax is due on the receipts from the rental or lease.
- (3) Boat charters with captains, "head boat" trips, excursions and the like are considered a transportation service.

In each of the above situations the sales or use tax is payable on acquisition of the property used in rendering the service. The above examples are furnished as guides and are not intended to be all inclusive.

II. Election to Pay Sales or Use Tax

(A) A person engaged in the renting or leasing of tangible personal property may elect to pay the

tax as measured by the cost of the property to him or her upon acquisition. Such election shall be exercised by the payment of the sales tax to the seller or by filing the required use tax return on or before the due date.

(B) On failure to so elect, a lessor shall be deemed to be a retailer; the lessor is required to obtain a sales tax permit and collect and remit sales taxes as measured by the total amount of rental or lease charges. Such permittee shall provide the supplier with a resale certificate.

(C) If the sole use of the property by a retailer, other than retention, demonstration or display in the regular course of business, is the rental or lease of the property while holding it for sale, the retailer may elect to pay the tax as measured by the cost of the property to the retailer. Such election shall be exercised by reporting and paying the use tax on the sales tax return for the month in which the property is first so rented or leased.

(D) Upon the subsequent sale of such property, the person making the sale shall include the full amount of the selling price in his or her gross receipts and shall pay the tax thereon.

(E) If a lessor of tangible personal property dissolves, reorganizes or merges with another company and the transfer is not subject to tax pursuant to R.I.G.L. 44-18-20(4)(b), the transferee is subject to the same rights and liabilities as the transferor with regard to the property transferred as if the transfer had not occurred.

III. Parts Purchased by Lessors of Tangible Personal Property

The tax does not apply to parts or accessories purchased by lessors of tangible personal property for installation therein or thereon for the purpose of keeping such rented or leased property in usable condition, provided the sales tax is collected on the entire rental or lease charges paid by the lessees of such property.

IV. Manufacturer-Lessor

When tangible personal property is leased or rented by the manufacturers of the tangible personal property and the manufacturer elects to pay on the cost basis, the "cost of the property to him or her" will be the total manufactured cost consisting of materials, labor, overhead and any other costs capitalized for purposes of depreciation, amortization or the like.

Cross Reference: [SU 87-41](#) - Boat Rentals and Leases

R. GARY CLARK
TAX ADMINISTRATOR

EFFECTIVE DATE: JANUARY 1, 1993

THIS REGULATION AMENDS AND SUPERCEDES REGULATION SU 87-62
PROMULGATED MAY 1, 1987.