

State of Rhode Island - Division of Taxation

Sales and Use Tax

Regulation SU 98-122

Qualifying Research and Development Firms' Equipment

A. Definitions

1. A "qualifying firm" means a business for which the use of research and development equipment is an integral part of its operations.
2. "Equipment" means scientific equipment, computers, software and related items.
3. "Research and development" means experimental or laboratory activity that has as its ultimate goals the development of new products, the improvement of existing products, the development of new uses for existing products or the development or improvement of methods for producing products. Research and development does not include testing or inspection of materials or products for quality control purposes, efficiency surveys, management studies, consumer surveys or other market research, advertising or promotional activities, or research in connection with literary, historical or similar projects.

B. Exemption/Burden of Proof

The Rhode Island sales and use tax law provides an exemption from the sale, storage, use or other consumption of equipment to the extent used for research and development by a qualifying firm.

A taxpayer seeking exemption must establish by its records the extent to which the equipment for which it seeks exemption is used in research and development.

C. [Certificate](#)

A qualifying firm may purchase equipment for the purpose of being used for research and development tax free by furnishing its suppliers with a research and development exemption certificate in the format attached. Provided, however;

- (a) If the equipment purchased partially qualifies for exemption and the qualifying firm knows the extent of the partial exemption, the qualifying firm shall give the vendor a Research and Development Exemption Certificate and file a use tax return with the Division of Taxation and pay a use tax based on the percentage of the nonexempt use of the equipment, or
- (b) If the equipment purchased partially qualifies for exemption and the qualifying firm does not know the extent of the partial exemption, it shall give the vendor a Research and Development

Exemption Certificate and file a use tax return with the Division of Taxation and pay use tax on the entire cost of the equipment.

If a qualifying firm files a use tax return under the provisions of (a) or (b) above, it shall, twenty-four months thereafter, analyze the equipment usage to determine the actual exempt usage for that equipment. This shall be compared to the original estimate made and any balance due or credit due the qualifying firm must be reported on the next month's use tax return. Any balance due or credit due shall bear interest from time of original purchase.

R. GARY CLARK
TAX ADMINISTRATOR
EFFECTIVE: JANUARY 1, 1998

THIS REGULATION AMENDS AND SUPERCEDES REGULATION SU 97-122
PROMULGATED JANUARY 1, 1997.