

State of Rhode Island - Division of Taxation

Sales and Use Tax

Regulation SU 98-144

Leases of Motor Vehicles

I. GENERAL

In many motor vehicle leasing transactions, the retail customer negotiates the terms and executes the lease contract with a motor vehicle dealer. In executing the lease, certain "Capitalization Cost Reductions" such as a cash down payments, are factored into the lease as they reduce the amount of the monthly payments due under the term of the lease. These Capitalization Cost Reductions are part of the lease charges and are subject to tax. Other charges, such as acquisition fees, origination fees, registration and title fees are also subject to tax under a lease.

The dealer, acting on behalf of the leasing company, generally collects the first month's lease payment and the leasing company subsequently collects the balance of the lease payments due under the contract. The leasing company is responsible for collecting and remitting the tax on all lease charges including the initial charges collected by the dealer. Therefore, if the dealer remits the tax it collects directly to the Division of Taxation and such collection or remittance is improper, the leasing company remains responsible for the remittance of the proper amount of the tax due.

II. LEASES OF MOTOR VEHICLES FOR USE OUTSIDE THE STATE

When a retail customer leases a motor vehicle for use outside the state, takes possession of the vehicle in Rhode Island, and the vehicle is to be registered and garaged in a state which imposes a tax on the lease charges of a motor vehicle leased to nonresidents, the dealer is required to collect the tax on the first month's lease payment, including the Capitalization Cost Reduction and or other charges as noted in paragraph I. In this instance, the dealer is required to collect the tax equal to the rate that would be imposed in the state where the leased vehicle is to be registered and garaged. However, the tax rate imposed shall not exceed the Rhode Island sales and use tax rate.

A vehicle is presumed to be leased for use, storage or consumption outside the state if the address where the vehicle will be registered and garaged is outside of Rhode Island and the lessee presents a valid out-of-state driver's license to the dealer listing said out-of-state address. The dealer is required to have the nonresident lessee sign the completed certificate of exemption, Form CE1-NR.

This presumption may be rebutted, however, by a showing that the vehicle is subsequently returned to the state by the lessee for use, storage or consumption in this state.

III. LEASE OF MOTOR VEHICLE FOR USE IN RHODE ISLAND FROM OUT-OF-STATE DEALERS

When a retail customer executes a lease with a dealer located out of state and the leased vehicle is to be registered and garaged in Rhode Island and the lessee is legally required to pay a tax to that state on the initial charges collected by the dealer, the leasing company must remit, in addition to the sales tax due on the subsequent lease charges, the difference in the tax rate, if any, between the tax imposed by this state and the state in which the dealer is located.

IV. TRADE-INS

(a) In-State Leases: When leasing a motor vehicle for use in this state, the amount of the trade-in allowance of a private passenger automobile given in trade to the dealer towards the lease of a private passenger automobile is excluded from the tax base.

(b) Out-of-State Leases: When leasing a motor vehicle for use and registration in a state that does not allow a like exemption to nonresidents, a dealer shall take into consideration the trade-in provisions of the state in which the motor vehicle is to be registered and garaged.

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