

State of Rhode Island - Division of Taxation

Sales and Use Tax

Regulation SU 11-109

TRADE IN DEDUCTION

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RULE 1. PURPOSE

This regulation implements Chapter 44-18 and 44-19 of the Rhode Island General Laws. These Chapters provide for Sales and Use Taxes Liability and Computation and Sales and Use Taxes Enforcement and Collection in regard to trade in deductions.

RULE 2. AUTHORITY

This regulation is promulgated pursuant to RIGL Chapter 44-18 and 44-19 as amended. These rules have been prepared in accordance with the requirements of RIGL Chapter 44-1-1 et. seq. and 44-19-33.

RULE 3. APPLICATION

The terms and provisions of these rules and regulations shall be liberally construed to permit the Department of Revenue to effectuate the purposes of RIGL Chapter 44-18 and 44-19 and other applicable state laws and regulations.

RULE 4. SEVERABILITY

If any provision of these rules and regulations, or the application thereof to any person or circumstances, is held invalid by a court of competent jurisdiction, the validity of the remainder of the rules and regulations shall not be affected thereby.

RULE 5. DEFINITIONS

“Automobile” means a private passenger automobile not used for hire, and does not refer to any other type of motor vehicle.

“Truck” means every motor vehicle designed, used, or maintained primarily for the transportation of property. The administrator of the division of motor vehicles shall determine, in case of doubt, if a motor vehicle is subject to registration as a truck.

RULE 6. TRADE IN ALLOWANCE

In general, a deduction from the gross proceeds of a sale is not permitted for any credit allowed by the seller for a trade-in taken in exchange, or as a part payment, for the item sold. Tax applies to the full selling price of a taxable item sold regardless of any trade-in allowance.

RIGL 44-18-30(23) however does allow for a trade-in allowance on an automobile given by the buyer in trade to the seller of an automobile, towards the purchase of a new or used automobile. A motor home is treated as a private passenger vehicle which qualifies for the trade-in allowance.

Example #1

A customer purchases an automobile from a dealership and trades in an automobile to the dealer (seller). The trade in allowance is deducted from the sales price in determining the amount of the sale subject to tax.

Example #2

A customer purchases an automobile from a dealership and trades in a truck to the dealer (seller). A deduction for the trade in allowance is not allowed from the sales price in determining the amount of the sale subject to tax, since the vehicle traded in is a truck.

Example #3

A customer purchases an automobile from a dealership and trades in an automobile to the dealer (seller). In addition, the customer receives a manufacturer's rebate on the purchase of the automobile. Both the trade in allowance and the amount of the manufacturer's rebate are deducted from the sales price in determining the amount of the sale subject to tax.

RULE 7. EFFECTIVE DATE This regulation shall take effect on October 1, 2011 and shall amend and supercede regulation SU 94-109 promulgated January 1, 1994.

RULE 8. REFERENCES

CROSS REFERENCE: SU 03-72 "Motor Vehicles – Trade-In Allowance"

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