



OFFICE OF MANAGEMENT & BUDGET

State Budget Office

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State Fiscal Note for Bill Number:

2025-S 0031

Date of State Budget Office Approval: Friday, February 21, 2025

Date Requested: Thursday, January 23, 2025

Date Due: Saturday, February 15, 2025

<i>Impact on Expenditures</i>	<i>Impact on Revenues</i>
FY 2025 N/A	FY 2025 N/A
FY 2026 N/A	FY 2026 \$(4,148,598)
FY 2027 N/A	FY 2027 \$(5,864,314)

Explanation by State Budget Office:

This proposal would allow purchasers of a motor vehicle who are trading in a pickup truck with a gross vehicle weight of less than 14,000 lbs. as part of the transaction to pay the use tax at registration on the gross price of the motor vehicle minus the value of the truck taken in trade. The use tax at registration would be determined by multiplying the net value of the transaction by 7%.

Under current Rhode Island law, all purchasers of trucks who register the truck in the state pay a use tax at registration equal to 7% of the gross purchase price of the truck being registered with no consideration given for the value of the truck traded in. Trade-in values are already exempt from use tax for private passenger automobiles and motorcycles.

Summary of Facts and Assumptions:

The bill is effective upon passage. To match similar proposals relating to sales tax on vehicle trade-in values, the Office of Revenue Analysis (ORA) assumed the exemption would take effect October 1, 2025. The Division of Taxation notes that under R.I. Gen. Laws § 44-18.1-5 and because Rhode Island is a signatory to the Streamlined Sales and Use Tax Agreement (SSUTA), it is necessary to allow for at least a ninety (90) day period for the change.

This bill specifies that the new exemption of the trade-in value only applies to "pickup trucks." Under state law and in Division of Motor Vehicle (DMV) data, the term pickup truck is not defined. DMV data does indicate that most vehicle transactions under 14,000 lbs. are associated with vehicles commonly known as pickup trucks. Given these facts, this analysis does not try to separate out pickup trucks from other trucks and instead looks at all truck transactions under 14,000 lbs.

This analysis uses data from the Division of Motor Vehicles (DMV) that specifies the trade-in value of trucks purchased in Massachusetts by Rhode Island residents. Massachusetts, unlike Rhode Island, allows the value of truck trade-ins to be exempt from that state's sales and use tax. Rhode Island residents are required to pay the difference in sales and use tax between Massachusetts (6.25%) and Rhode Island (7%) when they register their vehicle in Rhode Island. As part of this process, those purchasers must add back the value of the trade-in to calculate the Rhode Island use tax owed.



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According to the DMV data, the trade-in value from Massachusetts-purchased trucks less than 14,000 pounds would have lowered sales and use tax collections (had those trade-in amounts been exempt from Rhode Island taxation) by 14.6% in FY 2024. The similar figure for FY 2023 was 14.0% and from FY 2022 it was 15.74%. ORA used a three-year average of FYs 2022, 2023 and 2024 to estimate that allowing truck trade-in amounts to be exempt from Rhode Island taxation would have lowered sales and use tax collections by 14.78%. ORA assumed that the value of trade-ins associated with non-Massachusetts dealers would be similar and applied that rate to the other truck transactions in the data.

In FY 2024, the value of total truck transactions less than 14,000 pounds in the DMV data from dealers other than Massachusetts dealers was \$429,769,148. Reducing this by 14.78% indicates that exempting the trade-in value would have reduced the value of these transactions by \$63,506,718. Applying Rhode Island's 7% use tax rate indicates that the exemption of this trade-in value would have reduced sales and use tax by \$4,445,470. Sales and use tax on the trade-in value of trucks purchased in Massachusetts was \$805,812 (which would also be forgone under this bill). Adding the loss from Massachusetts and non-Massachusetts transactions reveals a total loss in FY 2024 from the proposal of \$5,251,282.

The revenue loss was grown using the estimated growth rates for all sales and use tax adopted at the November 2024 Revenue Estimating Conference (REC) for FY 2025 and FY 2026 (and the growth rate estimated for FY 2027 in the Office of Management and Budget's tie-in forecast after the November 2024 REC). The loss estimate was also prorated for an October 1, 2025, start date by discounting by 26.6% (which is the average share of DMV revenue that occurs between July and September over the last five years).

Comments on Sources of Funds:

All sales and use taxes are general revenues.

Summary of Fiscal Impact:

FY 2025: Not applicable given the assumed effective date of October 1, 2025.
FY 2026: A general revenue loss of \$4,148,598 is forecast.
FY 2027: A general revenue loss of \$5,864,314 is forecast.

Budget Office Signature: _____

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Fiscal Advisor Signature: _____