Rhode Island's "Taylor Swift Tax" Creates New Compliance Obligations for Sellers and Closing Agents in Residential Property Transfers in the State

Description

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Effective June 28, 2026, Rhode Island officially adopted regulations implementing the state's new Non-Owner Occupied Residential Property Tax, commonly referred to as the "Taylor Swift Tax." Beginning with the tax year commencing July 1, 2026, the tax, which is in addition to property taxes owners already pay to their city or town, applies to certain residential properties that are not used as the owner's primary residence and have a municipal assessed value of at least $1 million. While much attention has focused on the tax itself, the new regulations also establish important obligations that directly affect residential property transfers, particularly for sellers, closing attorneys, title companies, and other settlement professionals.

The additional tax is imposed on non-owner occupied residential property with an assessed value of $1 million or more. For the initial tax year beginning July 1, 2026, the tax is calculated at a rate of $2.50 for every $500, or fraction thereof, of assessed value exceeding the $1 million threshold; annual CPI adjustments will begin July 1, 2027. Whether a property is considered "non-owner occupied" is determined by a 183-day occupancy test. A property that does not serve as the owner's primary residence for at least 183 days during the applicable privilege year, the period of July 1 through June 30 directly preceding the tax year, may be subject to the tax unless an exemption applies.

The regulations also create special rules for property transfers because tax liability is tied to the privilege year rather than solely to ownership on the tax assessment date. As a result, parties to a transaction must determine whether the seller or purchaser bears responsibility for any tax attributable to the period during which the property was owned and occupied. The regulations provide different results depending upon when the transfer occurs during the privilege year.

For transfers occurring on or after July 1, 2026, the most significant compliance requirement arises when a property is transferred between December 30 and June 30. In these transactions, the seller remains responsible for any non-owner occupied tax due for the privilege year in which the transfer occurs. To facilitate compliance, the regulations require the seller to contact the Rhode Island Division of Taxation at least ten business days prior to closing and request a Certificate of No Tax Due. The certificate confirms that all non-owner occupied tax obligations for prior tax years, the current tax year, and the tax year corresponding to the applicable privilege year have either been paid or are not due.

The regulations effectively make the Certificate of No Tax Due a critical closing document for many transfers involving residential properties with assessed values at or above the statutory threshold. Sellers should begin evaluating potential tax exposure early in the transaction process and should not wait until the eve of closing to contact the Division of Taxation. Failure to obtain the certificate could delay closing, create disputes between the parties, or expose the seller to post-closing tax liability.

For transfers occurring between July 1 and December 29, the allocation of responsibility differs. The seller remains responsible for any non-owner occupied tax due for prior and current tax years, while the purchaser assumes responsibility for any tax that may arise from the privilege year in which the transfer occurs and that will be assessed in a future tax year. Although the regulations place future-year responsibility on the purchaser in these circumstances, sellers should nevertheless ensure that all existing tax obligations have been resolved before closing and be prepared to demonstrate compliance if requested by the closing agent or purchaser. Notwithstanding the differences in tax liability, the seller remains responsible during this period for obtaining, prior to closing, a Certificate of No Tax Due with respect to taxes for which the seller is responsible.

The new regulations also underscore the importance of maintaining records demonstrating qualification for an exemption. The tax generally does not apply to properties that are rented for at least 183 days during the privilege year under a written lease or rental agreement. Similarly, properties operated as qualifying short-term rentals and rented for at least 183 days during the privilege year may also be exempt. Property owners should retain leases, rental agreements, occupancy records, utility bills, tax filings, and other documentation establishing either primary residency or exemption eligibility. Such records must generally be preserved for at least three years following the applicable tax year.

Closing attorneys, title companies, and settlement agents should update their due diligence procedures to address the new tax. Transactions involving residential property assessed at $1 million or more should be screened for potential applicability of the non-owner occupied tax, and closing professionals should verify whether a Certificate of No Tax Due is required. Purchase and sale agreements may also warrant revisions to address responsibility for current and future tax liabilities, indemnification obligations, and documentary requirements needed for closing.

The Rhode Island “Taylor Swift Tax” introduces a new layer of tax diligence into high-value residential real estate transactions. Sellers, purchasers, and closing professionals should become familiar with the transfer rules now, particularly the requirement to obtain a Certificate of No Tax Due before certain closings. Careful planning and early coordination with the Division of Taxation can help avoid closing delays, penalties, interest charges, and unexpected tax liabilities after title has transferred.

For additional information regarding the new “Taylor Swift Tax,” including guidance on compliance requirements and available exemptions, please contact attorneys in PSH’s Real Estate Group, including Jay Peabody, Allison Fleet, or Kelley Decena.

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