

# RHODE ISLAND TAX NEWS

A NEWSLETTER FOR TAXPAYERS AND PREPARERS

JANUARY/FEBRUARY/MARCH 2015

## WHAT'S NEW FOR FILING SEASON

**T**ax return preparers and taxpayers will soon encounter two key changes to Rhode Island's statewide property-tax relief program.

One of the changes involves the program's maximum credit amount; the other involves the rules regarding who may be eligi-

ble for the credit. The changes are among the highlights for the 2015 filing season.

*(Please turn to page 2)*



**Seminar:** More than 100 tax preparers took part in the Rhode Island Division of Taxation's "Seminar for Tax Preparers" at the Community College of Rhode Island (CCRI) Warwick campus in December. The agency held a similar seminar in November at CCRI in Newport, also attended by more than 100 preparers. Topics included what's new for filing season.

## CORPORATE TAX CHANGES FOR 2015

**R**hode Island has implemented sweeping changes to its corporate income tax structure for tax years beginning on or after January 1, 2015.

The corporate income tax rate is now 7 percent, down from 9 percent for 2014. As

a consequence, Rhode Island now has the lowest maximum corporate income tax rate in New England.

In addition, the franchise tax has been officially repealed, mandatory combined reporting has taken

effect, and businesses treated as C corporations for federal income tax purposes are now subject to single sales factor apportionment -- and the market-based sourcing method for purposes of computing the sales factor.

*(Please turn to page 4)*

### Inside:

### **MORE TAX CHANGES**

*A number of other tax changes have taken effect that will impact taxpayers and practitioners, including the following:*

- Estate tax (see [page 5](#))
- FUTA tax (see [page 7](#))
- Section 179 (see [page 8](#))
- Table for use tax (see [page 8](#))
- TDI tax (see [page 14](#))

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# WHAT'S NEW FOR FILING SEASON

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State of Rhode Island and Providence Plantations					
2014 Form RI-1040H					
Rhode Island Property Tax Relief Claim					
First name	MI	Last name	Deceased?	Your social security number	
			Yes <input type="checkbox"/>		
Spouse's first name	MI	Last name	Deceased?	Spouse's social security number	
			Yes <input type="checkbox"/>		
Mailing address			New address?	Daytime telephone number	
			Yes <input type="checkbox"/>		
City, town or post office		State	ZIP code	City or town of legal residence	
Home Address if using a PO Box or if your Mailing Address is different from Home Address			Email address		

Most preparers and taxpayers will encounter the tax credit changes for the first time during this filing season.

### Credit amount

The maximum amount of the credit has increased by \$5 for tax year 2014, to \$305.

The maximum annual credit had long been \$300. But the General Assembly changed the law in 2006. Under that change, the credit can increase based on net terminal income generated by State-authorized video lottery games.

Although such increases have been possible since July 2007, it turns out that tax year 2014 is the first time that an increase can occur based on the limits of the formula. (See Rhode Island General Laws § 44-33-9.)

Also effective for 2014 and later tax years, the statewide property tax relief program is solely for those

65 and older or disabled. The term "disabled" for this purpose means someone who is receiving either (or both) of the following:

- ◆ Social Security Disability Insurance, also called SSDI.
- ◆ Supplemental Security Income, also called SSI.

So, if someone is 65 and older or disabled -- and that person meets the many other requirements of the program (including the \$30,000 household income limit) -- that person may receive a statewide property-tax relief credit of up to \$305 during this filing season, for tax year 2014.

The claim for the credit must be made on Form RI-1040H and filed on or before April 15, 2015.

In the case of a married couple filing a joint return, only one spouse need clear the age/disability requirement. So, if at least one spouse is 65 or older or disabled, the couple may qualify for the credit (assuming that

the many other requirements of the program are met, including the household income limit).

When the General Assembly approved the establishment of a statewide property-tax relief program in 1977, it said that the purpose of the program was "to provide relief, through a system of tax credits and refunds and appropriations from the general fund, to elderly persons who own or rent their homes."

The program was broadened by a 1988 law to include disabled persons (elderly or not). It was not until 1997 that the program was expanded to non-disabled people younger than 65.

But for 2014 and later years, only those who are 65 or older, or who are disabled, are eligible for the credit. Those who claim the credit under the disability provision should have documentation from

the Social Security Administration showing receipt of SSDI or SSI benefits -- such as a benefit award letter, or the COLA notice sent each November or December.

### Outreach

In recent months, the Division of Taxation has held numerous outreach sessions with practitioners and others to help spread the word about the changes. The Division of Taxation also created and distributed a poster -- in English and Spanish -- that highlights the changes. (A copy of English-language version is on the following page.)

### Earned income credit

A new law has broadened the Rhode Island earned income credit for many low-income workers starting in 2015.

The changes to the earned income credit are for tax year 2015, so preparers will see the impact on returns that are prepared in early 2016.



# CHANGES ENACTED FOR PROPERTY-TAX RELIEF

Special  
Notice

*A message for tax preparers and taxpayers from the  
Rhode Island Division of Taxation*

To find a volunteer site near you that prepares personal income tax returns and Form RI-1040H property-tax relief applications, call:

- ◆ The United Way of Rhode Island's helpline: 2-1-1. (It is a toll-free call; just dial the three numbers: 211.)
- ◆ The Volunteer Income Tax Assistance (VITA) program toll-free at 1-800-906-9887.
- ◆ The AARP Tax-Aide program toll-free at 1-888-227-7669.

The Division of Taxation answers questions and hands out forms but does not prepare returns.



RHODE ISLAND DIVISION OF TAXATION

Rhode Island Division of Taxation  
One Capitol Hill  
Providence, R.I. 02908  
Phone: 1-401-574-8829 option # 3



The Rhode Island Division of Taxation wants you to know about important changes to the statewide property-tax relief program (Form RI-1040H) for the 2015 filing season.

The maximum credit is now \$305, an increase of \$5. Also, you are eligible for the credit only if:

- ◆ You are 65 or older, or
- ◆ You are receiving Social Security disability benefits, also called SSDI, or Supplemental Security Income benefits, also called SSI.

People who are younger than 65 and not disabled no longer qualify. But they may be eligible for the state earned income credit.

Those who are eligible for the property-tax relief credit must meet various requirements, including the \$30,000 household income limitation.

*Changes were included in legislation enacted on June 19, 2014, and are retroactive to January 1, 2014. See RIGL § 44-33-1 et seq., and Form RI-1040H instructions.*

## CORPORATE TAX CHANGES FOR 2015 (CONTINUED FROM PAGE 1)

The changes are the result of legislation approved by the General Assembly and signed into law by then-Governor Lincoln D. Chafee on June 19, 2014.

“These are the most significant changes to Rhode Island’s corporate income tax regime since 1947,” said Rhode Island Tax Administrator David M. Sullivan. “The Division of Taxation has held numerous outreach sessions with taxpayers and tax practitioners throughout the state to spread the word and to help ensure that everyone is aware of these changes. But now that the new year is upon us, we want to take this opportunity to remind taxpayers and practitioners about the changes and their impact,” Sullivan said.



**Seminar:** More than 100 tax preparers and others attended the Rhode Island Division of Taxation’s “Seminar for Tax Preparers” at the Community College of Rhode Island’s Newport campus in November. Among the presenters (on stage, from left) were Principal Revenue Agent Richard Coia, Chief Revenue Agent Leo Lebeuf, Principal Revenue Agent Marlen Bautista, Chief Revenue Agent Linda Riordan, and Chief of Examinations Michael Canole. Coia reviewed changes to the corporate tax for 2015, as well as filing season matters.

**Tax Rate:** The corporate income tax rate under Rhode Island General Laws (RIGL) § 44-11-2 is 7 percent for tax years beginning on or after January 1, 2015, down from 9 percent for 2014. (For some taxpayers, the actual rate could be lower, depending on certain factors, such as the Jobs Development Act rate reduction. The annual corporate minimum tax remains at \$500.)

**Franchise Tax:** For 2014, the franchise tax was equal to \$2.50 per \$10,000 of a corporation’s authorized

capital stock. However, for tax years beginning on or after January 1, 2015, the franchise tax is repealed.

**Combined Reporting:** For tax year 2014, entities treated as C corporations filed separate returns, as separate entities. However, for tax years beginning on or after January 1, 2015, Rhode Island has adopted mandatory unitary combined reporting for corporate income tax purposes.

As a result, a business which is treated as a C corporation for federal income

tax purposes – and which is part of a combined group engaged in a single or common business enterprise -- a “unitary” business – must file a combined report with Rhode Island.

Such a C corporation will have to report on its Rhode Island return not only its own income, but also the combined income of the other corporations, or affiliates, that are under common ownership and part of a unitary business.

Thus, a C corporation will generally have to treat all of

its affiliates as if they were a single company, and combine all of their taxable income in a single pool. A formula is used to apportion the combined income to Rhode Island for tax purposes.

**Estimated Tax:** For tax years beginning on or after January 1, 2015, Rhode Island will apply special rules regarding payments of estimated tax for any C corporation that is required to file a combined report.

*(Please turn to page 5)*

# ESTATE TAX CHANGES TAKE EFFECT FOR 2015

Rhode Island's estate tax has a new look for 2015.

For decedents dying on or after January 1, 2015, a \$64,400 Rhode Island credit will be applied to the estate tax.

This will have the effect of shielding up to \$1.5 million from Rhode Island's estate tax.

Thus, in effect, Rhode Island's estate tax "threshold" – which was \$921,655 for decedents dying in 2014 – will be \$1.5 million for decedents dying in 2015.

As a consequence, fewer estates will be subject to the tax – and more assets will



**Estate Tax:** Linda Riordan, Esq., chief of the Rhode Island Division of Taxation's Estate Tax section, spoke to more than 100 tax preparers who were assembled at the Community College of Rhode Island's Knight Campus in Warwick for the agency's "Seminar for Tax Preparers." Riordan reviewed the estate tax changes for 2015.

flow to heirs and other beneficiaries.

Another change applies for 2015 and later years: Be-

cause the estate tax formula now employs a credit, estates that exceed the \$1.5 million threshold will owe tax, but will be able to employ the credit to shield the first \$1.5 million from tax.

### 'Cliff' provision

As a result, estates that exceed the threshold will owe less tax than they ordinarily would.

Thus, the "cliff" provision under prior law no longer applies.

Under prior law, once the estate exceeded the threshold, the entire estate was subject to tax. Under the new law, only the portion over the threshold will be subject to the tax. In other words, the "cliff" provision that existed under prior law has been eliminated.

Estate	Tax in 2014	Tax in 2015
\$500,000	\$0	\$0
921,655	0	0
1,000,000	30,555	0
1,500,000	64,400	0
2,000,000	99,600	35,200

Source: Senate Fiscal Office

## CORPORATE TAX CHANGES FOR 2015 (CONTINUED FROM PAGE 4)

To meet "safe harbor" provisions, such taxpayers will have to compute estimated payments for that tax year as follows:

The installments must equal 100 percent of the tax due for the prior year plus any additional tax that is due to the combined reporting provisions; or the

installments must equal 100 percent of the current year tax liability.

**Apportionment:** For tax years beginning on or after January 1, 2015, businesses that are treated as C corporations for federal income tax purposes and that are or will be taxed under Rhode Island General Laws Chap-

ter 44-11 must use a single factor – sales (total receipts) – for apportionment purposes, instead of the three-factor apportionment formula (which includes sales, payroll, and property).

**Sourcing:** For tax years beginning on or after January 1, 2015, businesses that are treated as C corporations for

federal income tax purposes and that are or will be taxed under RIGL Chapter 44-11 must use a different method regarding how to treat the sale of services for purposes of corporate income tax apportionment -- regardless of whether the C corporation is part of a combined group.

(Please turn to page 6)

## DIVISION OF TAXATION WINS NATIONAL AWARD

The Rhode Island Division of Taxation's Employer Tax section has won a national award for excellence from the U.S. Department of Labor's Office of Unemployment Insurance.

The award was presented at the National Unemployment Insurance Directors Conference and IT/Legal Issues Forum, held in October in Salt Lake City, Utah.

The award was for "performance excellence in tax operations" for small states. Receiving the honor on behalf of the Division of Taxation's Employer Tax section on October 22, 2014, was the section's supervisor, Chief Revenue Agent Philip D'Ambra.

"This award recognizes our

Employer Tax section's high standards and the hard work that Phil and his team do. Their work reflects well on the Division and on the State of Rhode Island," said Rhode Island Tax Administrator David M. Sullivan. "We are very proud of the accomplishments of our entire Employer Tax section," Sullivan added.

### Employer taxes

The Division of Taxation's Employer Tax section works closely with the Rhode Island Department of Labor and Training and is involved in the administration and collection of taxes involving unemployment insurance, temporary disability insurance (TDI), and the job development assessment.



Photo courtesy of U.S. Department of Labor

**National Award:** Rhode Island Division of Taxation Chief Revenue Agent Philip D'Ambra, who oversees the agency's Employer Tax section, receives an award for excellence in Salt Lake City, Utah, from Gay Gilbert (left), administrator of the U.S. Department of Labor's Office of Unemployment Insurance.

It was the fifth consecutive year that the Division of

Taxation's Employer Tax section has won the award.

## CORPORATE TAX CHANGES FOR 2015 (CONTINUED FROM PAGE 5)

For 2014, when a C corporation calculates the sales factor for apportionment purposes, it assigns the sale of its services to the state in which the income-producing activity was actually performed – known as the cost-of-performance (COP) method.

If the corporation performs activity in multiple states, the corporation assigns the sale to the state in which the corporation performed a greater proportion of the activity than in any other state – based on the cost of

performance. However, for tax years beginning on or after January 1, 2015, Rhode Island will use a market-based sourcing approach. That approach says that receipts from transactions (other than sales of tangible personal property) are sourced to the market state – that is, the state where the recipient of the service receives benefit from the service.

(Entities other than C corporations will continue to use the standard cost-of-performance method.)

**Subchapter S:** For 2014, a subchapter S corporation pays either the tax due under the franchise tax's standard formula, or the franchise tax's minimum of \$500, whichever amount is higher.

However, for tax years beginning on or after January 1, 2015, the franchise tax is repealed.

As a consequence, subchapter S corporations will be subject to the annual minimum tax under the corporate income tax statute, instead of under the franchise

tax statute. (As a practical matter, most S corporations will see no change: They will continue to pay the annual minimum tax of \$500. Some S corporations under the old system ended up paying more than the minimum tax because of franchise tax provisions. For tax years beginning on or after January 1, 2015, those S corporations will pay only the \$500 minimum.)

*Editor's Note: For information about the domestic production activities deduction, please see Practitioners' Corner, page 12.*

# RHODE ISLAND CHANGES REDUCE FUTA TAX

Rhode Island Tax Administrator David M. Sullivan is urging employers to make note of two changes that have recently taken effect and that could save them money.

“The recent recession is generally viewed as the worst since the Great Depression,” Sullivan said. “It had a far-reaching impact on many people, families, and businesses. One result was that unemployment increased sharply in Rhode Island, and Rhode Island – and many other states – had to borrow money from the federal government to help pay unemployment benefits,” he said. “Because of the way the system works throughout the country, many employers wound up paying more in taxes to help pay off the debt to the federal government that was incurred as a direct result of the recession.

“Thanks to the efforts of former Governor Chafee with the support of the General Assembly, along with extraordinary work by the Rhode Island Department of Labor and Training, and particularly the hard work of Rhode Island employers and their employees, those loans have been paid off, and that will mean employer-tax savings for Rhode Island employers,” Sullivan said.

## Job development

In 2011, the state’s job development assessment, which is paid by employers, increased to 0.51 percent of an employer’s taxable payroll, from 0.21 percent.

The difference – of 0.3 percentage point – went to pay

## Governor Chafee and RI DLT Announce Repayment 6 Months Early of the Federal Unemployment Insurance Loans

Providence, RI—Governor Lincoln D. Chafee joined Rhode Island Department of Labor and Training (DLT) Director Charles J. Fogarty on today at DLT in Cranston to announce repayment of the funds the state borrowed to cover Unemployment Insurance (UI) benefit payments.

Since March 2009, the U.S. Treasury has loaned our state \$905 million to assist unemployed Rhode Islanders through the recession. With the final payment of \$2,690,368.70 to the U.S. Treasury six months early, businesses will save more than \$50 million in 2015 – including \$36 million in Federal Unemployment Tax Act (FUTA) payments and \$14.5 million in interest assessment taxes. Rhode Island’s 32,000 employers — who pay for the Unemployment Insurance Trust Fund (UITF) — will save \$45 million more in FUTA taxes in 2016.

the interest on federal loans and to help repay borrowings from the federal government. (Proceeds of the loans had been used to cover benefit payments to the unemployed.)

However under a budget article proposed by then-Governor Chafee and approved by the General Assembly, which took effect on June 19, 2014, the 0.3 percent additional assessment ended in late 2014, dropping the job development assessment to its pre-2011 level of 0.21 percent. “As a result, employers will see some welcome tax relief,” Sullivan said.

## FUTA tax

Because of money borrowed from the federal government during the recession, employers in Rhode Island and many other states have had to pay higher-than-usual taxes under the Federal Unemployment Tax Act (FUTA) until the federal loans are paid off.

Normally, an employer’s FUTA tax equals 6 percent of the first \$7,000 of each employee’s taxable wages. But an employer who pays state unemployment taxes on a timely basis gets to claim a credit to offset the FU-

TA tax. The credit is 5.4 percent. Thus, the actual FUTA tax – after taking the special credit into account – is normally 0.6 percent of the first \$7,000 of an employee’s taxable wages.

The formula is normally 6.0 percent less the 5.4 percent credit, for a maximum FUTA tax of \$42.00 per employee, per year ( $0.006 \times \$7,000 = \$42.00$ ).

But if a state has outstanding loan balances for a certain period of time, the special credit is reduced until the federal loan is repaid. The reduction schedule is 0.3 percent for the first year the state is deemed to be a “credit reduction” state, another 0.3 percent for the second year, and an additional 0.3 percent for each year thereafter that the state has not repaid its loan in full.

Rhode Island employers faced a total credit reduction of 0.3 percent for calendar year 2011, 0.6 percent for 2012, and 0.9 percent for 2013. Thus, for the return that had to be filed on or before January 31, 2014, Rhode Island employers had a special credit of 4.5 percent, instead of 5.4 percent.

In other words, Rhode Island employers wound up paying a net FUTA tax of 1.5 percent (the 6.0 percent FUTA tax rate minus the 4.5 percent credit = 1.5 percent) instead of the 0.6 percent rate which would have otherwise applied if the federal loan had been paid off (the 6.0 percent FUTA tax rate minus the normal 5.4 percent credit = 0.6 percent). Put another way, for the return that was due in January 2014, a Rhode Island employer had to pay a FUTA tax of \$105 per employee, instead of the normal \$42 per employee.

But because Rhode Island has paid off its federal loan, the FUTA tax that Rhode Island employers will have to pay -- on the returns they file on or before January 31, 2015 -- will be \$42 per employee. (Had Rhode Island not paid back its federal loan last year, the tax would have been \$126 per employee, or 1.8 percent of \$7,000, in 2015).

*(Announcement of the early loan payoff was made in November 2014. An excerpt from the announcement appears above.)*

## NEW WAY TO CALCULATE AND REPORT USE TAX

Rhode Island taxpayers now have a new option for calculating and reporting Rhode Island use tax.

Anyone who buys an item delivered to Rhode Island or used in Rhode Island that is subject to the Rhode Island 7 percent sales tax for which sales tax was not paid (or less than a 7 percent sales tax was paid) is required to pay Rhode Island's use tax.

The use tax is paid directly to the State of Rhode Island by the purchaser. For example, if a Rhode Island resident buys a computer, jewelry, appliance, or furniture from an out-of-state retailer and pays no Rhode Island sales tax, that person must pay the 7 percent Rhode Island use tax. (Rhode Island is not alone on this: states that have sales taxes typically also have use taxes.)

New this filing season, for tax year 2014 returns, the Division of Taxation has created a use tax lookup table.

"This is truly a convenience for taxpayers," said Rhode Island Tax Administrator David M. Sullivan. "In general, by using the lookup table, you can report your use tax without having to keep track of receipts for minor purchases. And using the lookup table creates a safe harbor: if you completely and accurately report and pay the use tax you owe, you will not be subject to penalty and interest later on for use tax on those purchases."

If you have no use tax to report, simply enter zero on the appropriate line of your return. But if you do owe use tax – which is often the case – here is the situation:

- ◆ list the actual amount of use tax, based on your books and

records; or

- ◆ use the lookup table.

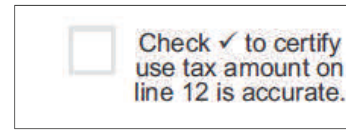
The options are spelled out in more detail in a new schedule -- Schedule U, "Individual Consumer's Use Tax" -- which accompanies Form RI-1040 this season.

Can you still use the lookup table option if you have made any individual purchases of greater than or equal to \$1,000 each? Yes. In that case, just follow the format on the new schedule. (You'll wind up calculating the tax for such individual purchases, and adding that amount to the amount you get from the lookup table for your other purchases.) The lookup table itself is straightforward. For

example, if your federal adjusted gross income (as shown on your Form RI-1040, page 1, line 1) is \$30,000, the amount from the lookup table is \$25.

Be sure to check the box on the front of your return to attest that the amount of use tax you're reporting is accurate (even if the amount is zero). The Division of Taxation will direct computer software providers to require taxpayers and preparers to proactively check the box.

*Editor's Note: The box shown at the top of this page is a snapshot from the Rhode Island resident return. The box in the nonresident return is similar but has a different line reference.*



## SECTION 179 LIMITS RAISED, AFFECTING MANY BUSINESSES

Businesses may claim a higher federal and Rhode Island expensing deduction amount for assets placed in service in 2014.

Under a federal law enacted in December 2014, only days before the end of the tax year, the Internal Revenue Code Section 179 deduction limits were increased retroactively. And because of a change in state law approved by the General Assembly and signed into law by then-Governor Lincoln D. Chafee in July 2013, Rhode Island law automati-

cally follows the federal law. "This is good news for businesses," Rhode Island Tax Administrator David M. Sullivan said. "Depending on the circumstances, a business can qualify for both a federal and a Rhode Island deduction. The deduction can help the business recover the cost of the asset."

Under federal and Rhode Island law, the Section 179 deduction limit for 2014 is \$500,000. (It had been \$25,000). The overall limit on equipment purchases, before the Section 179 deduc-

tion begins to be reduced, is \$2 million for 2014. (It had been \$200,000.) The Rhode Island limits apply for assets placed in service for 2014.

In general, the Section 179 deduction allows a business to fully charge off the cost of an asset immediately, in the year of acquisition, rather than having to claim the deduction in installments over a number of years. Because Rhode Island law is now linked to federal law when it comes to the Section 179 deduction, when the Section 179 limitations increased for federal tax pur-

poses, they automatically increased for Rhode Island tax purposes, for assets placed in service in 2014.

A business considering claiming the deduction should check with a tax adviser to see how the new law applies. "If they meet the federal requirements, they'll automatically qualify for Rhode Island tax purposes," Sullivan said. Expensing of assets for Rhode Island tax purposes is allowed in the same manner as provided for under IRC § 179.



**Legal Corner:****RECENT STATE TAX CASES IN SUMMARY**

Following is a summary of tax-related cases in which final decisions were made after administrative hearings. By law, decisions are public information, but taxpayer information cannot be disclosed.

**Cigarette tax**

Untaxed little cigars had been found on a retailer's premises. The retailer thus owed tax; a notice of deficiency was issued. In settlement of the case, the retailer entered into a stipulation which provided that the retailer would pay the deficiency over time, in five installments.

The retailer made four of those payments, but not the fifth. Hearing Officer Catherine R. Warren determined that the taxpayer had violated the stipulation. She determined that the retailer should make the payment on the 31<sup>st</sup> day from the signing of the Administrative Decision by the Tax Administrator. Warren on September 30, 2014, signed her decision and recommendation; Tax Administrator David M. Sullivan on October 3, 2014, adopted the decision and recommendation.

-- [Final Decision and Order No. 2014-22](#)

**Concrete**

The case involved a business that sells and delivers ready-mix concrete. The Division of Taxation determined through an audit that the company should include, as taxable sales,



Rhode Island Tax News provides only summaries of some recent tax-case decisions, which are based on specific facts and circumstances.

*The summaries are merely informative and provide general information. To determine how state tax laws and regulations apply to your particular circumstances, please consult your tax professional.*

the amounts the company charged for the use of a pumping truck to aid on certain job sites. The taxpayer argued, in part, that the sale ends when the mixer truck delivers the concrete to the pump truck. The Division argued, in part, that the sale ends at the concrete's final destination.

On October 6, 2014, Warren determined that the taxpayer owed the assessed sales tax and interest on the rental fees for its pump truck services. She cited, among other things, RIGL §§ 44-18-12, 44-18-7.1, and 44-19-11. On October 8, 2014, Sullivan adopted her decision and recommendation.

-- [Final Decision and Order No. 2014-23](#)

**Claim for refund**

At issue is whether a request by a married couple for a personal income tax refund for 2008 was timely filed.

Under RIGL § 44-30-87, a claim for credit or refund of an overpayment of tax must be filed by the taxpayer within three years from the time the return was filed, or two years from the time the tax was paid, whichever of these periods expires the later.

If the claim is filed within the three-year period, the amount of the credit or refund cannot exceed the portion of the tax paid within the three-year period.

If the claim is not filed within the three-year period, but is filed within the two-year period, the amount of the credit or refund cannot exceed the portion of the tax paid during the two years immediately preceding the filing of the claim.

In this case, the couple's tax for 2008 was deemed paid on the date it was due: April 15, 2009. They filed the 2008 return on September 30, 2013 – which is past the two-year limit mentioned above.

The couple's refund claim was filed within the three-year period mentioned above, but the three-year rule limits the amount of a refund to the portion of tax paid within the three-year period – and the couple had not paid any tax in that period, Warren determined.

*(Please turn to page 10)*

**Tax Hearings**

Any taxpayer aggrieved by the action of the Tax Division in determining the amount of tax, surcharge, or penalty, may make written request for a formal hearing.

The taxpayer is first afforded an opportunity to have a preliminary review. Should the matter not be resolved, it may then proceed to formal hearing under the terms of the state Administrative Procedures Act (RIGL § [42-35-1 et seq](#)) and Tax Division regulation [AHP 97-01](#).

If not satisfied with the outcome, the taxpayer may appeal to Sixth Division District Court (RIGL § [8-8-24 et seq](#)).

**Legal Corner:****RECENT STATE TAX CASES** (CONTINUED FROM PAGE 9)

On October 17, 2014, Warren's recommendation was as follows: The taxpayers are not entitled to the claimed refund, and the Division properly denied the taxpayers' claim for refund. On October 21, 2014, Sullivan adopted Warren's decision and recommendation.

[-- Final Decision and Order No. 2014-24](#)

**Modification**

A married couple sought to reverse the Division of Taxation's action regarding a modification. The wife had received long-term disability benefits. Under the insurer's terms, the disability benefit payments would be reduced once her Social Security benefit was finalized.

When that eventually happened, the wife owed the insurer some money (essentially an adjustment, due to the Social Security benefits), the husband said. The taxpayers claimed a modification, saying that it represents a repayment of income that they had received – and that had already been taxed. Without the modification, they would be taxed twice on the same income, the husband asserted.

The Division argued, in part, that the deduction that the

couple claimed, via a modification, is not allowed by Rhode Island statute. The statute – RIGL § 44-30-2.6 – provides only for the standard deduction on returns; the statute does not allow taxpayers to modify their income by deducting the repayment of income received.

On October 7, 2014, Warren recommended as follows: The taxpayers cannot deduct their long-term disability payment on their 2011 resident Rhode Island return. The Division properly denied the taxpayers' request for a deduction (a modification) and properly issued a notice of deficiency for the taxes and interest owed as a result.

However, Warren recommended that the Division of Taxation revisit the issue of reasonable cause and willful neglect – if those are the statutory bases for the penalties in this case – in order to determine whether the failure-to-pay and failure-to-file penalties apply in this case. (She cited RIGL § 44-30-85(a).) Sullivan on October 29, 2014, adopted her decision and recommendation.

[-- Final Decision and Order No. 2014-25](#)

**Sales tax**

An out-of-state business delivered precast sewer system

parts in Rhode Island, using its own vehicles. But the Division of Taxation found that the entity never registered to do business in Rhode Island and had no Rhode Island sales permit.

As a result, the Tax Division determined, through audit, that the entity was a nonresident retailer subject to sales tax. The Division assessed sales tax, interest, and a 10 percent penalty.

The entity was notified but did not attend a hearing. On October 27, 2014, Warren recommended as follows: The entity owes the assessed sales tax as well as interest and penalties, citing RIGL § 44-18-18, § 44-19-11, and § 44-19-12. On October 31, 2014, Sullivan adopted her decision and recommendation.

[-- Final Decision and Order No. 2014-26](#)

**Motor fuel refund**

At issue is whether an entity's two separate requests for refund of motor fuel tax was timely filed.

Such requests are due 240 days from the date of the purchase of fuel. In this case, the entity filed both requests on October 13, 2013 – which is more than the 240 days after the purchases (one on July 1, 2012, the other on July 11, 2012). The entity was notified of a hearing but did not attend. On November 6, 2014, Warren – citing RIGL § 31-36-13 – recom-

mended as follows: The entity's two requests for refunds of motor fuel tax were out-of-time and the Tax Division properly denied the requests. On November 12, 2014, Sullivan adopted Warren's decision and recommendation.

[-- Final Decision and Order No. 2014-27](#)

**Cigarette dealer**

A cigarette dealer refused to allow the Division of Taxation's inspectors to conduct an investigation of the dealer's premises. As a consequence, the Division asserted that the dealer had violated Rhode Island's cigarette tax statutes in RIGL Chapter 44-20. A hearing was held, but the dealer failed to appear.

On November 5, 2014, Warren recommended that the dealer's cigarette dealer license be suspended for 30 days and an administrative penalty be imposed. On November 12, 2014, Sullivan adopted her decision and recommendation.

[-- Final Decision and Order No. 2014-28](#)

**LLC prevails**

An out-of-state limited liability company (LLC) prevailed at a formal hearing over whether it owed the \$500 annual filing charge that normally applies to LLCs that are treated as pass-through entities for federal income tax purposes.

*(Please turn to page 11)*



**Legal Corner:****RECENT STATE TAX CASES** (CONTINUED FROM PAGE 10)

The Division of Taxation asserted that the Connecticut LLC, which is treated as a partnership for federal tax purposes, did business in Rhode Island and should file and pay the \$500 annual charge as required under Rhode Island General Laws (RIGL) § 7-16-67(b)(2).



detailed in RIGL § 7-16-54(e) (10) and therefore did not have to pay the annual charge.

Sullivan on November 14, 2014, adopted the hearing officer's decision and recommendation.

-- [Final Decision and Order No. 2014-29](#)

A member of the LLC asserted, in part, that the LLC was not a business engaged in business transactions; that it had purchased residential property in Rhode Island as a one-time event; and that no transactions of a recurring nature were conducted in the name of the LLC, save the annual payment of the municipal property tax. Therefore, the LLC claimed that it was exempt.

Warren determined on November 13, 2014, that the LLC fell under the exemption

**Fuel tax**

At issue is whether the motor carrier owed fuel use tax under the International Fuel Tax Agreement (IFTA).

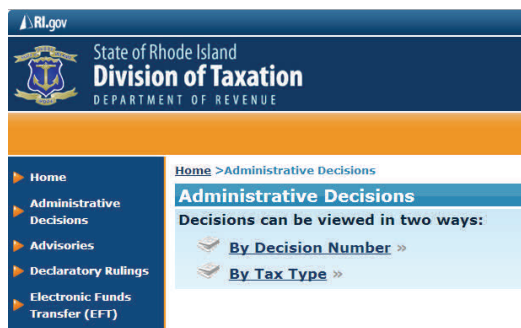
(IFTA is an agreement among 48 jurisdictions -- including Rhode Island, many states, and some Canadian provinces. IFTA simplifies the reporting of fuel that is used by interstate motor carriers. In general, under IFTA, a motor carrier must file a quarterly IFTA fuel use tax report, which is used to determine

the net tax or credit due to each state. The taxes are then redistributed among the various states or other jurisdictions.)

Under Rhode Island law, fuel taxes must be paid by motor carriers that meet certain specifications. In this case, the Division of Taxation assessed the carrier for fuel taxes owed for the audit period, as well as interest and penalties. On De-

ember 2, 2014, Warren concluded that the Division properly assessed the taxpayer additional fuel use tax under IFTA and properly assessed interest and a penalty on the tax deficiency. On December 3, 2014, Sullivan adopted the hearing officer's decision and recommendation.

-- [Final Decision and Order No. 2014-30](#)

**DECISIONS ONLINE**

The Division of Taxation's website shows all Administrative Decisions since early 2011. (See screenshot above.) To view, use the following link <http://www.tax.ri.gov/AdministrativeDecisions/>

**Regulatory update****REVISIONS TO CORPORATE INCOME TAX REGULATIONS**

The Division of Taxation is in the process of revising many of its corporate income tax regulations to reflect changes in corporate tax law that were enacted in June 2014 -- including the establishment of mandatory unitary combined reporting, the repeal of the franchise tax, and changes to the apportionment calculation for

businesses treated as C corporations for federal income tax purposes.

**Combined reporting**

In January 2015, the agency was in the process of posting a draft regulation on combined reporting. The agency was also working at the time on a number of other revised or new regula-

tions -- involving such topics as apportionment and market-based sourcing.

**Paid preparers**

The Division of Taxation recently posted, as final, its regulation involving paid preparer penalties. The regulation took effect January 1, 2015. (To view a copy, click [here](#).)

**Regulations repealed**

Also, effective as of November 2014, the Division of Taxation repealed two outdated regulations: one dealing with the study of combined reporting (*pro forma* combined reporting), the other dealing with the net worth tax.

## Practitioners' Corner:

# QUESTIONS AND ANSWERS ABOUT STATE TAXES

**Q: In early December 2014, we received e-file rejection notices for returns filed for partnerships, S corporations, and C corporations. Our software provider indicated that the reason was that the**

**Rhode Island Division of Taxation stopped accepting e-filed returns when the Internal Revenue Service stopped accepting e-filed U.S. Form 1040s. Does that sound right to you? We would like to e-file. We can extend the returns and then e-file later – if Rhode Island will be accepting 2013 returns in 2015.**

**A:** We “took down” our e-file system in late November, at the same time that the Internal Revenue Service took down its system for e-filing personal income tax returns.

We do the same thing at about the same time every year. Why? Our mainframe computer needs to be prepared for the new filing season. In this case, we took down e-filing in November 2014 for tax year 2013 returns. When we bring the system back up in January 2015, it will be open for e-filing only 2014 returns; we will not be accepting any e-filing of 2013 tax returns. (This is a limitation of the



mainframe; it can only process one flat file layout at a time – and because the return changes every year, the layout changes every year as well.)

**Q. We went to a restaurant for our Christmas party. The restaurant applied a mandatory gratuity of 18 percent to the bill. The sales tax was then applied to the entire bill – including the mandatory gratuity. Is that legal?**

**A:** Yes. By statute, Rhode Island’s 7 percent sales tax and Rhode Island’s 1 percent local meals and beverage tax apply to the entire bill, to the “sales price” – and “sales price” by definition means the total amount of consideration, including “charges by the seller for any services necessary to complete the sale” (see Rhode Island General Laws § 44-18-12(a)).

**Q: I was reading the regulation about penalties that could be applied to a paid preparer of tax returns. There was a lot in there about the earned income credit and the property-tax relief credit, which both have to do with the personal income tax. This may be a silly question, but will you confirm whether or not**

**these provisions apply to sales/use tax preparers?**

**A:** Although the regulation focuses in large part on the earned income credit and the property-tax relief credit, the regulation is not limited to those two provisions -- nor is it limited to the personal income tax.

The regulation applies to paid preparers of any type of return, no matter the tax type. In fact, the word “return” is defined in statute (Rhode Island General Laws § 44-68-2) as any tax report, return, claim for refund or attachment to any report, return and/or claim for refund filed with the tax administrator pursuant to the tax laws of this state.

So, the regulation applies to paid preparers of any type of return, no matter the tax type. Thus, penalties may apply whether the personal income tax, corporate income tax, sales and use tax, estate tax, or other such levy is involved.

**Q: I realize that your Form RI-1065 is the partnership income tax return, to be filed by LLCs, LLPs, LPs and partnerships treated as pass-through entities for federal tax purposes -- including a single-member LLC (SMLLC). However, my client is a general partnership -- and there does not appear to be a box to check for general partnerships.**



## Filing deadline

*The filing deadline is February 2, 2015, for the annual sales tax reconciliation. (The usual filing deadline falls on a weekend, so the deadline has been moved to the next business day.)*

*If you file on paper, keep in mind that there are three separate returns: one for liquor stores, one for artists, and one for all other retailers. (Due to system limitations, only the regular annual sales tax reconciliation can be e-filed.)*

**A:** For a general partnership, check the box that says “Partnership”. It’s just below the box for “LP”. (Please see page 18 of this newsletter for more information.)

**Q: If my client claims the Section 199 deduction, how will it be treated on the Rhode Island return?**

**A:** You’re talking about the domestic production activities deduction available under Internal Revenue Code § 199. It’s also known as the “production deduction” or “DPAD”.

*(Please turn to page 13)*

**Practitioners' Corner:****QUESTIONS AND ANSWERS ABOUT STATE TAXES** (CONTINUED FROM PAGE 12)

In general, it allows a taxpayer at the federal level to claim a deduction related to income from certain trade or business activities.

As a result of legislation enacted in June 2013, businesses treated as C corporations for federal tax purposes are no longer able to claim a Rhode Island tax benefit for the deduction.

The DPAD provision in that 2013 legislation applies to tax years beginning on or after January 1, 2014.

Therefore, many taxpayers will first encounter the provision during this filing season, for tax year 2014. Businesses treated as C corporations will have to add back into their taxable income for Rhode Island purposes any amount they have deducted at the federal level through the production deduction. The add-back applies to C corporations but not to S corporations.

What if you claim the production deduction on your personal U.S. Form 1040, reducing your federal adjusted gross income (AGI)? Do not add that back for Rhode Island personal income tax purposes. Instead, carry that reduced AGI figure onto your Rhode Island personal income tax return.

So, if you're claiming the benefit on your federal U.S. 1040 – because you have an ownership stake in a subchap-

ter S corporation, LLC, partnership, or other entity that is treated as a pass-through for federal tax purposes, or because you run your business as a sole proprietorship – you'll get the benefit at the Rhode Island level, too, on your Rhode Island personal income tax return. Do not add it back.

**Q: My client purchased a car from a neighbor for \$10,000. On the bill of sale, the neighbor listed only \$6,000. The Division of Motor Vehicles (DMV) charged tax on the book value, which was \$10,000. Why?**

**A:** The DMV must, by statute, compare the purchase price on the bill of sale to the vehicle's book value. Whichever amount is greater is the amount on which Rhode Island sales tax (technically, the use tax) is calculated. (One reason for this is to combat tax fraud by those who deliberately understate the amount they list for the purchase price on the bill of sale.)

**Q: I use Facebook and have not received Division of Taxation updates in some while.**

**A:** We use social media as a way to get tax information

out to tax practitioners and taxpayers. However, some taxpayers were posting personal tax information on our Facebook page. As we have noted on our social media tools, we cannot use such tools to collect or respond to comments or messages about taxpayer information due to Rhode Island statutory restrictions involving taxpayer confidentiality. As a result, we recently had to stop using Facebook. However, there are other ways to keep up with Division of Taxation news developments.

For example, you can view our blog: <http://rhodeislandtax.blogspot.com/> Also, the blog gives you the option to enter your e-mail address. If you choose the option, you won't have to check the blog; updates will be e-mailed to you automatically. You may also sign up for our official listserv (e-mail distribution list) by e-mailing: [Susan.Galvin@tax.ri.gov](mailto:Susan.Galvin@tax.ri.gov) with the word SUBSCRIBE in the subject block.

**Q: I'd like to e-file both the federal and Rhode Island income tax returns for my client's irrevocable trust. My tax-preparation software says I can e-file the federal U.S. Form 1041, but not the Rhode Island Form**

**About 'Practitioners' Corner'**

The "Practitioners' Corner" feature provides general answers to some of the questions that the Tax Division encounters through the normal course of business.

The answers are intended solely to provide general information. They do not represent formal guidance, and are not substitutes for Rhode Island General Laws, Tax Division regulations, or Tax Division rulings.

**RI-1041. Is this correct?**

**A:** Yes. Early last year, we offered e-filing for the fiduciary income tax return, Form RI-1041, for the first time, but few software providers agreed to take the necessary steps to offer e-filing of that form to their clients. We did not make e-filing of Form RI-1041 available this season, for tax year 2014. However, we will consider making it available at some future point.



## TDI TAX RATE AND WAGE BASE SET FOR 2015

The maximum tax under Rhode Island's temporary disability insurance (TDI) program is \$770.40 for 2015, compared with \$752.40 for 2014, an increase of 2.4 percent, or \$18.

The TDI tax has two main components: one is the tax rate itself, the other is the amount of your wages to which that tax rate applies.

The amount of wages to which the TDI tax rate applies is \$64,200 for 2015, compared with \$62,700 for 2014, an increase of 2.4 percent, or \$1,500.

The TDI tax rate is 1.2 percent for 2015 -- the same as it has been since 2012.

As a result, the maximum TDI tax will be \$770.40 for 2015 (the tax rate of 1.2 percent applied to the first \$64,200 of one's wages). The maximum TDI tax was \$752.40 for 2014 (the tax rate of 1.2 percent applied to the first \$62,700 of one's wages). Whether the

Year	Tax rate	Wage base	Max. tax
2015	1.2%	\$64,200	\$770.40
2014	1.2%	\$62,700	\$752.40
2013	1.2%	\$61,400	\$736.80
2012	1.2%	\$60,000	\$720.00
2011	1.3%	\$58,400	\$759.20
2010	1.2%	\$57,900	\$694.80
2009	1.5%	\$56,000	\$840.00
2008	1.3%	\$54,400	\$707.20

amount of your TDI tax goes up or down will generally depend on how much you earn.

In general, the tax is paid by nearly 403,300 private-sector workers. The TDI program is administered by the Rhode Island Department of Labor and Training; the tax is collected by the Rhode Island Division of Taxation.

The TDI program generally pays benefits for unemployment caused by injury or illness unrelated to work. A

related program, funded through TDI, is temporary caregivers insurance (TCI), which can provide eligible claimants with up to four weeks of caregiver benefits to care for a seriously ill child, spouse, domestic partner, parent, parent-in-law, or grandparent, or to bond with a newborn child, new adopted child, or new foster-care child.

*You can learn more about the TDI program at the [DLT website](#). Employers may learn more about TDI tax at the [Division of Taxation's website](#).*



### ARCHIVES ONLINE

Previous issues of the Rhode Island Division of Taxation's newsletter, *Rhode Island Tax News*, are available for viewing or for download at the agency's website:

[www.tax.ri.gov/newsletter/index.php](http://www.tax.ri.gov/newsletter/index.php)

## CHIEF OF CORPORATE TAX SECTION RETIRES

Rhode Island Division of Taxation Chief Revenue Agent Charles J. Larocque, CPA, retired in December.

Larocque, of Cranston, was head of the agency's Corporate Tax section, overseeing a staff that deals with corporate tax filings, corporate tax hearings, and

a wide range of other matters.

"Charlie was a vital part of our operation," said Rhode Island Tax Administrator David M. Sullivan. "He was extremely knowledgeable. With many years of state service, most of that in Taxation, Charlie was the go-to

guy for many of our staff members who sought information about corporate tax matters. As a CPA, he brought a high level of professionalism to the job, and he will be sorely missed. We wish him well in retirement." The agency plans to name a successor soon.



**Charles J. Larocque**

# RHODE ISLAND UI WAGE BASE SET FOR 2015

For most Rhode Island employers, the taxable wage base for calculating the state’s unemployment insurance (UI) tax will be \$21,200 for 2015, compared with \$20,600, an increase of \$600, or 2.9 percent.

The taxable wage base represents the maximum amount of an employee’s wages that are subject to the tax. The taxable wage base is set by law at 46.5 percent of the average annual wage in Rhode Island.

A separate, higher taxable wage base applies for employers that have experienced considerable unemployment – and who therefore have used the system’s resources the most and are taxed at the highest state UI tax rate (9.79 percent). For those employers, the taxable wage base will be \$22,700 for 2015, up from \$22,100 for 2014.

In general, the higher wage base impacts about 16

percent of Rhode Island experience-rated employers. It is intended to help offset the large drain that these employers have on the state’s unemployment insurance trust fund. For example, in 2013, nearly 40 percent of all unemployment insurance benefit payments were attributable to employers in this high-rate category.

The state’s unemployment insurance trust fund is generally funded by assessments on more than 30,000 employers in the state; it generally covers the cost of unemployment benefits for Rhode Island workers.

Overall, state UI tax rates range from 1.69 percent to 9.79 percent for 2015, the same as for 2014 (although the rate which applies to any given employer can change over time depending on various factors).

A separate state UI tax rate applies for new employers: That rate will be 2.74 percent for 2015, down from

Rhode Island employer tax: key figures	
Number of employers:	32,205
Number of employees:	546,782
Division of Taxation data for calendar year 2014, second quarter.	

the 2.85 percent rate for 2014.

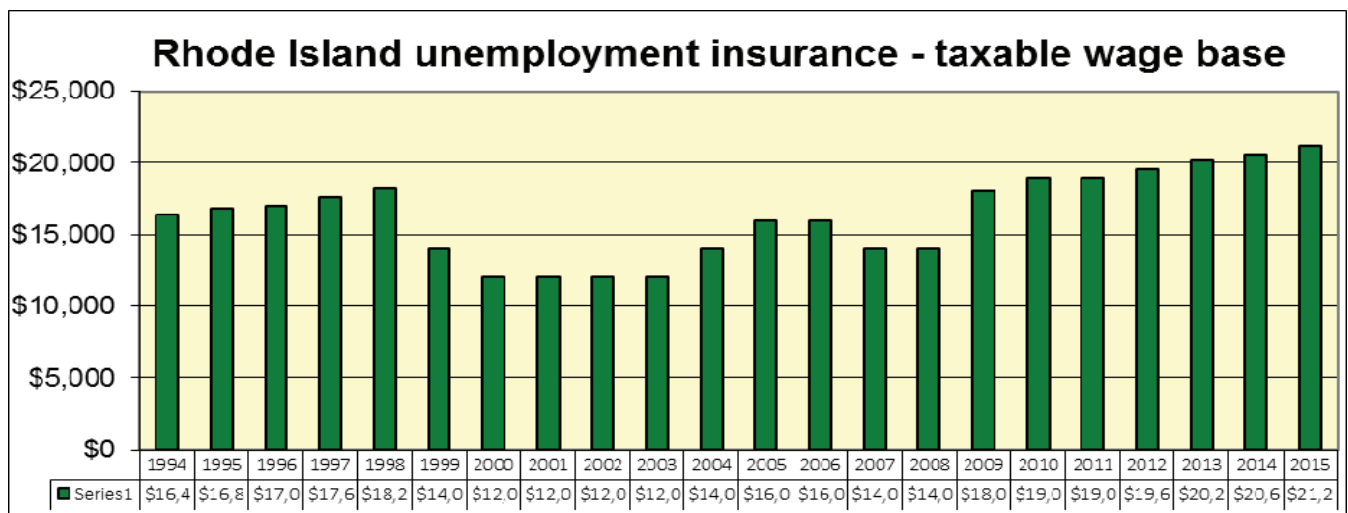
Changes in Rhode Island General Laws altered some of the key elements in the state’s unemployment insurance tax formula for 2012 and later years. The changes were part of a broader effort to restore the state’s unemployment insurance trust fund, which pays unemployment benefits and became insolvent during the recession.

For example, as a result of a 1998 state law, the taxable wage base was tied to the balance of the state’s unemployment insurance trust fund. Under the new law, the wage base is tied to the

statewide average annual wage, as the formula was before the 1998 law took effect.

In addition, the 2011 law ushered in the higher taxable wage base for those employers who have had the greatest negative effect on the state’s unemployment insurance trust fund.

*The state UI tax rates mentioned above do not include the job development assessment, which for 2015 equals 0.21 percent of the taxable wage base. Employer taxes are administered by the Division of Taxation and are overseen by the Department of Labor and Training.*



# TAX DIVISION SETS INTEREST RATES FOR 2015

Interest Rates		
Personal Income Tax Refunds		
From	To	Rate
01/01/71	05/12/82	6.00%
05/16/82	12/31/84	14.00%
01/01/85	12/31/85	14.75%
01/01/86	12/31/86	11.50%
01/01/87	12/31/87	9.50%
01/01/88	12/31/88	10.75%
01/01/89	12/31/89	12.00%
01/01/90	12/31/90	12.50%
01/01/91	12/31/91	12.00%
01/01/92	12/31/92	10.00%
01/01/93	12/31/93	8.00%
01/01/94	09/30/06	12.00%
10/01/06	12/31/06	6.75%
01/01/07	12/31/07	8.25%
01/01/08	12/31/08	7.75%
01/01/09	12/31/09	5.00%
01/01/10	Present	3.25%

The Rhode Island Division of Taxation has posted the interest rates that will apply in 2015 to overpayments and delinquencies.

The rates are the same as those that applied for 2014.

### Interest on underpayments

The interest rate on delinquent tax payments has been set at 18 percent per annum for calendar year 2015.

### Interest on overpayments

Interest on overpayments for calendar year 2015 will be at the rate of 3.25 percent per annum.

### A look back

For taxpayers and practitioners who are dealing with prior years, this issue of *Rhode Island Tax News* presents two tables:

The first table (on the left side of the page) shows interest paid on overpayments since 1971, when the personal income tax was enacted.

The second table (on the right side of the page) shows interest rates charged on underpayments since 1971.

Interest Rates		
Personal Income Tax Assessments		
From	To	Rate
01/01/71	05/15/74	6.00%
05/16/74	05/31/81	8.00%
06/01/81	03/15/82	12.00%
03/16/82	12/31/84	20.00%
01/01/85	12/31/85	14.75%
01/01/86	12/31/86	11.50%
01/01/87	12/31/87	9.50%
01/01/88	12/31/88	10.75%
01/01/89	12/31/89	12.00%
01/01/90	12/31/90	12.50%
01/01/91	12/31/91	12.00%
01/01/92	12/31/92	10.00%
01/01/93	12/31/93	8.00%
01/01/94	09/30/06	12.00%
10/01/06	Present	18.00%

## SALES AND USE TAX:

# PAY BACK TAXES BY JULY 1 TO RENEW SALES TAX PERMIT

Most retailers are current on their taxes and receive the annual sales tax permit in time for posting each July 1.

But a comparatively small number of retailers do not receive their permits: The Division of Taxation places a "block" on their accounts, preventing renewal of their sales tax permits, because they are delinquent in certain state taxes -- such as sales, meals and beverage, hotel and/or withholding

tax -- and have not met their obligations.

The bottom line: If you remain delinquent on your state taxes, your state sales tax permit won't be renewed.

### Doing business

If you don't have a sales tax permit, you won't be eligible to legally operate a business in Rhode Island. (For more information, please see [Rhode Island General Laws Chapter 5-76](#).)



Benjamin Miller /FreeStockPhotos.biz

The Tax Division's Compliance & Collections section will soon be preparing to send notices to those holders of sales tax permits who are delinquent on state tax.

Your best bet is to pay what you owe. That way, you can

get your permit renewed -- which means you'll legally be able to continue conducting business in Rhode Island. (Besides, paying your back taxes takes a weight off your shoulders.)

### Contact information

If you have any questions, or would like to make arrangements to pay, please call the Tax Division's Compliance & Collections section at (401) 574-8941 from 8:30 a.m. to 4 p.m. business days.



## TAX FRAUD ‘TIP LINE’ NOW AVAILABLE

A six-agency task force that includes the Rhode Island Division of Taxation has set up an anonymous telephone tip line to receive allegations of worker misclassification.

The tax fraud tip line is staffed by the Division of Taxation. The tip line number is (401) 574-TIPS or (401) 574-8477.

“By using the tip line, workers and others can let us know about employers who are misclassifying workers as independent contractors,” said Rhode Island Tax Administrator David M. Sullivan.

### Enforcing the rules

“Just call the tip line and leave a message. You don’t even have to leave your name or your phone number. Rest assured that we will follow up on all tips. Businesses that don’t play by the rules end up increasing the tax burden on those businesses that do play by the rules. By enforcing our laws, we can help to level the playing field — and that helps everyone, including employers and employees,” Sullivan said.

The task force was established to protect workers’ rights as well as law-abiding

businesses that properly classify their employees.

“While the vast majority of Rhode Island businesses are playing by the rules, those who aren’t must be identified and stopped,” said Rhode Island Attorney General Peter F. Kilmartin.

“This small number of corrupt businesses is denying workers their basic protections by misclassifying em-

ployees in order to evade paying for unemployment benefits and workers’ compensation insurance. The result is an uneven playing field that hurts honest and law-abiding employers,” Kilmartin added.



To view a fact sheet on this subject, please click [here](#). To view the Department of Labor and Training website on misclassification of employees as independent contractors, click [here](#).

## RHODE ISLAND TAX NEWS IN BRIEF

### Form 1040H

The Rhode Island Division of Taxation in December 2014 mailed out about 7,200 copies of [Form RI-1040H](#). It’s the form for claiming the statewide property tax relief credit.

### Estimated tax

The Division of Taxation plans to complete, in the first quarter of 2015, the mailing of about 40,000 copies of [Form RI-1040ES](#). Taxpayers use the form to make quarterly estimated payments of personal income tax.

### Interest statements

The Division of Taxation plans to complete, by the end of January 2015, the mailing of about 5,000 Forms 1099-

INT. The form shows how much interest a taxpayer received in 2014 on a Rhode Island income tax refund. (It’s an information statement, not a bill.)

### Form 1099-G

The Division of Taxation plans to complete, by the end of January 2015, the mailing of about 210,400 Forms 1099-G. Form 1099-G shows the amount of a taxpayer’s overpayment -- which a taxpayer received in the form of a refund in 2014, or applied against future taxes. (It, too, is an information statement, not a bill.)

### Sales tax exemption

Legislation enacted on July 3, 2013, temporarily exempted -- from Rhode Island sales and

use tax -- wine and spirits sold at liquor stores. The exemption was for a 16-month period -- from December 1, 2013, through March 31, 2015. However, a new law enacted in June 2014 extended the exemption for three months, through June 30, 2015. Thus, the exemption will remain in place for all of fiscal year 2015. (Beer and other malt beverages will continue to be subject to the sales and use tax.)

### Withholding

The Division of Taxation has posted on its website the 2015 version of [Form RI W-4](#), the employee’s withholding allowance certificate. Employees use the form to adjust the amount of Rhode Island personal income tax

that is withheld from their paychecks. Also posted is the agency’s booklet of [withholding tables for tax year 2015](#). Employers use the tables to figure out how much to withhold from an employee’s pay for Rhode Island personal income tax purposes.

### Inflation adjustments

The Division of has posted [inflation-adjusted amounts for tax year 2015](#). Among the items that have been adjusted are: standard deduction amounts; personal exemption and dependency amounts; the deduction and exemption phase-out range; and tax bracket ranges.

# FILING SEASON TIPS FOR FORM RI-1065

**Tip # 1:** When you complete Form RI-1065, remember to check the box to indicate which type of entity is filing the return. Checking the wrong box, or no box, results in delays in processing, and could result in your client receiving a Notice or bill.

▪ If your client is a general partnership, check the "Partnership" box (as shown below). The "Partnership" box is only for general partnerships (and they aren't subject to the \$500 annual filing charge).

▪ If your client is an LLC that is treated as a partnership for federal income tax purposes, check the LLC box on Form RI-1065 and pay the \$500 charge.

<b>RI-1065</b>		<b>Rhode Island Partnership Income Return</b>	
Amended <input type="checkbox"/> Initial Return <input type="checkbox"/> Final Return <input type="checkbox"/> Short Year <input type="checkbox"/> Address Change <input type="checkbox"/> <b>LLC</b> <input type="checkbox"/> <b>LLP</b> <input type="checkbox"/> <b>LP</b> <input type="checkbox"/> <b>Partnership</b> <input checked="" type="checkbox"/> <b>SMLLC</b> <input type="checkbox"/>		TO BE FILED BY LLCs, LLPs, LPs and Partnerships for calendar year 2014 or fiscal year beginning _____ - ending _____ <b>2014</b> Due on or before the 15 <sup>th</sup> day of the 4 <sup>th</sup> month after close of the taxable year	
		NAME	
		ADDRESS	
		CITY	STATE ZIP CODE
		FEDERAL EMPLOYER IDENTIFICATION NUMBER	TELEPHONE NUMBER

**Tip # 2:** On page 1 of Form RI-1065, amounts for lines 3 and 5 should come from page 2, Schedule B or Schedule C. But some preparers are not filling in the schedules, which causes delays in processing and other potential problems for clients. To avoid such problems, be sure to fill out the appropriate schedule on page 2.

**Tip # 3:** When you complete Form RI-1065, remember to fill out the apportionment section (as shown below). Otherwise, processing of the return could be delayed, and your client could receive a Notice. You must fill out the apportionment section even if all income is from Rhode Island. To compute the apportionment ratio, be sure to first complete Schedule J -- the apportionment information on page 1 of the return must come from a completed Schedule J.

<b>Apportioned</b>	6. Adjusted taxable income. Line 1 less line 3 plus line 5 .....	6.	
<b>Taxable Income</b>	7. Rhode Island Apportionment Ratio from Schedule J, line 5 .....	7.	
	8. Apportioned Rhode Island taxable income. Multiply line 6 by line 7 .....	8.	
<b>IMPORTANT: If entity is a general partnership, STOP HERE! No annual fee is due. All others continue to line 9.</b>			



## Rhode Island Department of Revenue Division of Taxation

### NEWSLETTER POLICY

*Rhode Island Tax News* is a newsletter from the Rhode Island Department of Revenue's Division of Taxation. It is typically published each quarter. Its purpose is to provide taxpayers and tax professionals with general information regarding Rhode Island tax laws, regulations and procedures. It is neither designed nor intended to address complex issues in detail. Nothing contained in this newsletter in any way alters or otherwise changes any provisions of the Rhode Island General Laws, regulations of the Tax Division, or formal rulings. The Tax Division is at One Capitol Hill, Providence, RI 02908. Its website is [www.tax.ri.gov](http://www.tax.ri.gov).

### HOW TO SUBSCRIBE

*Rhode Island Tax News* is distributed free, by e-mail, to those who have joined our listserv. If you are not on our listserv but would like to join, send an email to [Susan.Galvin@tax.ri.gov](mailto:Susan.Galvin@tax.ri.gov) with the word SUBSCRIBE in uppercase in the subject block.

### COMMENTS AND SUGGESTIONS

If you have comments or suggestions for *Rhode Island Tax News*, please e-mail its editor, Neil Downing: [Neil.Downing@tax.ri.gov](mailto:Neil.Downing@tax.ri.gov)

### BACK ISSUES

*Rhode Island Tax News* back issues are on the Tax Division website: [www.tax.ri.gov](http://www.tax.ri.gov)

#### How to contact us

Taxpayers may contact the Division of Taxation online, by phone, by letter, or in person. (Hours of operation are typically 8:30 a.m. to 4:00 p.m. business days.)

##### Website

[www.tax.ri.gov](http://www.tax.ri.gov)

(For numbers and e-mail addresses for specific sections, click the "[Contact us](#)" link.)

##### Mailing address

Rhode Island Division of Taxation  
One Capitol Hill  
Providence, R.I. 02908

##### Telephone

Phone: 401-574-8829  
Fax: 401-574-8917

#### NEWSLETTER CONTRIBUTORS



The following Division of Taxation personnel provided assistance for this issue:

Michael Canole	William Kaniecki
Daniel Clemence	Matthew Lawlor
Susanna Coburn	Leo Lebeuf
Richard Coia	Linda Riordan
Donna Dube	David Sullivan
Philip D'Ambra	∞
Donald Englert	
Susan Galvin	
Sharon Garner	

The Division of Taxation also would like to thank Robert Langlais, Charles Larocque, and Catherine Warren for their assistance.