

# RHODE ISLAND TAX NEWS

A NEWSLETTER FOR TAX PROFESSIONALS

JULY/AUGUST/SEPTEMBER 2017

## DIVISION USES NEW ACCOUNT IDS

The Rhode Island Division of Taxation has assigned individualized account identification numbers to retailers and other holders of sales permits.

The change, which officially took effect July 1, 2017,

is part of an effort to improve consistency and security, and to embrace best practices.

The move is intended to result in greater ID protection and more security for

retailers and other permit-holders, particularly by limiting use of the retailer's federal Employer Identification Number or other such tax ID number.

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### MORE INFORMATION ON ACCOUNT IDS

- *Effect on electronic filers (please see page 2)*
- *Effect on paper filers (please see page 2)*
- *Seminar (please see page 3)*



**Hearing:** Rhode Island Department of Revenue Director Robert S. Hull (left), Assistant Tax Administrator Michael F. Canole, and Tax Administrator Neena S. Savage presented testimony about the Division of Taxation's successful 2017 filing season during a hearing at the State House in Providence in June before the House Oversight Committee. (Screenshot above from Capitol Television broadcast)

## ASSISTANT TAX ADMINISTRATOR APPOINTED

Michael F. Canole has been promoted to the rank of assistant tax administrator at the Rhode Island Division of Taxation by Rhode Island Tax Administrator Neena S. Sav-

age. Canole, who had been serving as acting assistant tax administrator, officially assumed his new post as second-in-command at the agency on June 11, 2017.

Canole also now holds the

title of associate director of revenue services. The Division of Taxation has approximately 230 employees and an operating budget of \$23 million.

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## DIVISION USES NEW ACCOUNT IDS (CONTINUED FROM PAGE 1)

In addition, the change will allow the Division of Taxation to post a retailer's or other permit-holder's information to the Division's new agency-wide computer system more efficiently and effectively.

For example, the change will improve the speed and accuracy with which a retailer's payments of sales and use tax are credited to the retailer's account. This will prove especially helpful for retailers with multiple locations.

Many retailers have multiple bank accounts – and a separate account number for each. Many retailers also have different loans outstanding – and a separate account number for each. Similarly, each retailer will now have multiple account ID numbers with the Division of Taxation.

### Electronic filers

The overwhelming majority of retailers file electronically and they will see little impact. For example, electronic filers typically remit tax by using the Division of Taxation website for business tax filings.

They will continue to use that site, and will continue to use their 11-digit Rhode Island Identification Number and password to log in at that site. They will continue to select, from a menu, the tax type for which they are filing (sales/use tax, or meals-and-beverage tax, for example).



**Seminar:** More than 50 business owners, tax advisers, bookkeepers, and others attended the Division of Taxation's seminar in June on the sales tax, use tax, and self-audit program. The event, held at the Warwick Public Library (Central Library), also included a discussion about new account ID numbers for holders of sales permits. Speakers included (from left, at front of room) Mohammed Jobe, principal revenue agent in the Division's Excise Tax section; Kristen Ledo, principal revenue agent in the Division's Field Audit section, and Patrick Gengarella, chief revenue agent in Field Audit.

The Division of Taxation is in the process of developing a portal through which businesses will eventually be able to remit tax, make various payments, and take certain other steps online.

Even after the portal is fully functional, however, users will see little impact from the new account ID number system: Users will simply create their own account for the portal, including their own login and password, and – once logged in – will select from a menu the tax type for which they are filing and remitting tax.

### Paper filers

The impact on paper filers also will be limited. For example, the Division of Taxation recently began mailing out sales tax coupon booklets. Each booklet contains the retailer's sales permit, as well as coupons for remitting tax.

Each sales permit has its own account ID number, which the paper filer will use for purposes of annual permit renewal. However, the paper filer will be mailed a renewal form, which will have the account ID number on it. So the paper filer need take no

extra steps. (This assumes that the paper filer uses the pre-printed form, instead of a blank form, to renew. If the paper filer uses a blank form downloaded from the Division website, the filer will enter his or her new account ID number – the one on the permit.)

The paper filer will have a separate account ID number for remitting tax. However, that account ID number will already be printed on each coupon.

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## DIVISION USES NEW ACCOUNT IDS (CONTINUED FROM PAGE 2)

Therefore, the paper filer need take no extra steps; he or she should simply remit the appropriate pre-printed coupon with payment.

(Even if the paper filer uses a blank form downloaded from the Division website, the filer will enter his or her new account ID number – the one assigned for remitting tax.)

### Keeping track

Whether the retailer files electronically or on paper, it will still be important for the retailer (and for the retailer's bookkeeper, accountant, or other adviser) to keep track of the new Division of Taxation account ID numbers, much like the retailer keeps track of multiple bank account or loan ID numbers now.

For example, if you are a retailer:

◆ A different account ID number will apply for each function related to your account, such as remitting sales/use tax, filing the annual sales tax reconciliation, and renewing your sales permit.

◆ A different account ID number will apply for any tax type or fee you need to remit, such as meals-and-beverage tax, hotel tax, hard-to-dispose materials tax, and prepaid wireless tax.

◆ If you are a retailer with multiple locations, each location will have its own account ID number.

◆ Your sales permit itself now has its own account ID number, which appears on the new permit -- the one covering the year which began July 1, 2017. (You will use the account ID number shown on your sales permit only for purposes of renewing the sales permit. You will use a separate account ID number to remit sales/use tax.)

The Division of Taxation issued an Advisory in June which explained the new account ID numbers and the

impact on holders of sales permits.

Division representatives also explained the change as part of a seminar in June at the Warwick Public Library (Central Library). The event was attended by more than 50 business owners, tax advisers, and others.

The Division is gradually phasing in the use of the new account ID numbers. For example, on notices that were recently mailed to certain trusts that filed returns on Form RI-1041, the agency included only each trust's new account ID number, thus limiting the use of the trust's federal ID number.



**Attending:** More than 50 business owners, bookkeepers, tax advisers, and others attended the Division of Taxation's seminar in June, held at the Warwick Public Library (Central Library). The seminar focused on the sales tax, the use tax, and the self-audit program, and also included a discussion of new account ID numbers.

It is anticipated that use of the new account ID numbers will be broadened next year to employers, each of whom will be assigned a new account ID number for purposes of remitting withholding tax. (Please see the next page for examples of how the new account ID numbers will apply to holders of sales permits.)

**Note:** Although the Division of Taxation has assigned multiple individual account ID numbers to each retailer, the Division will not be mailing all the account numbers to all retailers. Instead, electronic filers will be sent one or two of their account ID numbers. Paper filers will be sent some, but not all, of their account ID numbers.



## DIVISION USES NEW ACCOUNT IDS -- EXAMPLES

*The Rhode Island Division of Taxation has assigned individualized account identification numbers to retailers and other holders of sales permits.*

*The change, which took effect on July 1, 2017, is intended to result in greater ID protection and more security for retailers and other permit-holders, particularly by limiting use of the retailer's federal*

*Employer Identification Number or other such tax ID number.*

*The new system's immediate impact will be mainly behind the scenes, and will have a limited*

*effect on your day-to-day operations -- whether you remit tax electronically or on paper. Still, it is helpful to know how the new system will apply. Following are some examples.*

### New account IDs: Examples



#### Example # 1

Suppose that ABC Jewelry Inc. is a retailer with one location, in Providence, and sells only jewelry. For the year which begins July 1, 2017, and for later years, ABC Jewelry Inc. will, solely for excise tax purposes, have three separate account ID numbers, one for each of the following: sales permit; sales tax remittance; and annual sales tax reconciliation.

#### Example # 2

Suppose that Sally Smith of North Kingstown is an artist who sells one-of-a-kind or limited-edition artwork and holds a sales tax exemption certificate for the sale of her work. For the year which begins July 1, 2017, and for later years, Sally will, solely for excise tax purposes, have three separate account ID numbers, one for each of the following: sales permit; sales tax remittance; and annual sales tax reconciliation.

#### Example # 3

XYZ Restaurant Inc. has two restaurant locations: one in Cranston, the other in Warwick. XYZ Restaurant Inc. must collect and remit sales tax as well as meals-and-beverage tax. Thus, for the year which begins July 1, 2017, and for later years, XYZ Restaurant Inc. will, solely for excise tax purposes, have separate account ID numbers for a number of items. However, how many separate account ID numbers will depend on whether XYZ Restaurant Inc. files separate returns for each of its locations, or if XYZ Restaurant Inc. files for excise tax purposes on a consolidated basis.

*If XYZ Restaurant Inc. files separate returns for each location:*

For Cranston location:

- sales permit for Cranston site
- sales tax remittance for Cranston site
- meals-and-beverage tax remittance for Cranston site
- annual sales tax reconciliation
- litter permit

For Warwick location:

- sales permit for Warwick site
- sales tax remittance for Warwick site
- meals-and-beverage tax remittance for Warwick site
- annual sales tax reconciliation
- litter permit

*But if XYZ Restaurant Inc. files on a consolidated basis:*

- sales permit for Cranston site
- sales permit for Warwick site
- litter permit for Cranston site
- litter permit for Warwick site
- sales tax remittance for both sites consolidated
- meals-and-beverage tax remittance for both sites consolidated
- annual sales tax reconciliation for both sites consolidated

## ASSISTANT TAX ADMINISTRATOR APPOINTED (CONTINUED FROM PAGE 1)

"I am pleased to announce the promotion of Mike Canole as Assistant Tax Administrator and Associate Director of Revenue Services," Savage said.

"Mike's deep knowledge of taxation and tax administration, coupled with his extensive experience through a long and accomplished career in multiple roles within the Division, make him the ideal candidate for this position," she said.

### Newport native

One of five children, he was born and raised in Newport, R.I., where his father was a police officer and his mother taught in public schools.

After graduating from Rogers High School, he attended the University of Rhode Island, where he was a member of the indoor track, outdoor track, and cross-country teams. To help pay for his college education, he worked summers as a laborer for what is now the Newport Water Division.

He graduated from URI in May 1973 with a Bachelor of Science degree in business administration, concentrating in accounting.

He joined the Division of Taxation, as an accountant, in September 1973 -- when the tax administrator was John H. Norberg and the agency was located on Promenade Street in Providence. (The agency moved to One



**Promotion:** *Michael F. Canole, CPA, was named assistant tax administrator at the Rhode Island Division of Taxation in June 2017. The Newport native has served at the agency for nearly 44 years.*

Capitol Hill in 1989.)

His first job was in the Accounting section, recording receipts and reconciling accounts. He was promoted to Field Audit in 1976 as a revenue agent, conducting sales tax audits.

### Multi-state auditor

Several years later, he became a multi-state tax auditor, focusing on corporate tax audits at out-of-state headquarters of major corporations. When his schedule permitted, he took night classes at what was then Bry-

daily work activity.

A few years later, he was elevated to the rank of chief revenue agent, overseeing the section.

In 2008, he became chief of examinations, third-in-command at the agency. In February 2016, he became acting assistant tax administrator, then was formally named assistant tax administrator in June 2017.

### Front Office work

While in the agency's Front Office, he has overseen the promulgation of regulations, including organizing and leading public hearings; aided in the implementation of the agency's new computer system; provided testimony at State House hearings; helped to develop internal management succession plans and interviewed candidates for supervisory positions; mentored younger staff members; and served as a Division liaison to other state agencies and to the General Assembly.

He is well-known in the local tax preparation community and has made numerous presentations at Division seminars.

Canole, who lives in Cranston with his wife, Mary, is recording secretary of CPE Associates, a nonprofit provider of continuing education services for CPAs. He is also a member of the Rhode Island Association of Public Accountants.

ant College, in Smithfield, to prepare for the Certified Public Accountant exam. (The studies improved his career prospects and aided in his work, he later said.) Eventually, he sat for and passed the exam and was officially licensed as a CPA in 1985.

### Moving up

It was in 1987 that Canole was promoted to the rank of principal revenue agent in the Personal Income Tax section, helping to supervise the section as well as assist the chief in planning and organizing the

## HEARING HELD ON PERSONAL INCOME TAX REFUNDS

Robert S. Hull, Director of the Rhode Island Department of Revenue (DOR), announced in June the conclusion of a successful personal income tax filing season by the DOR's Division of Taxation.

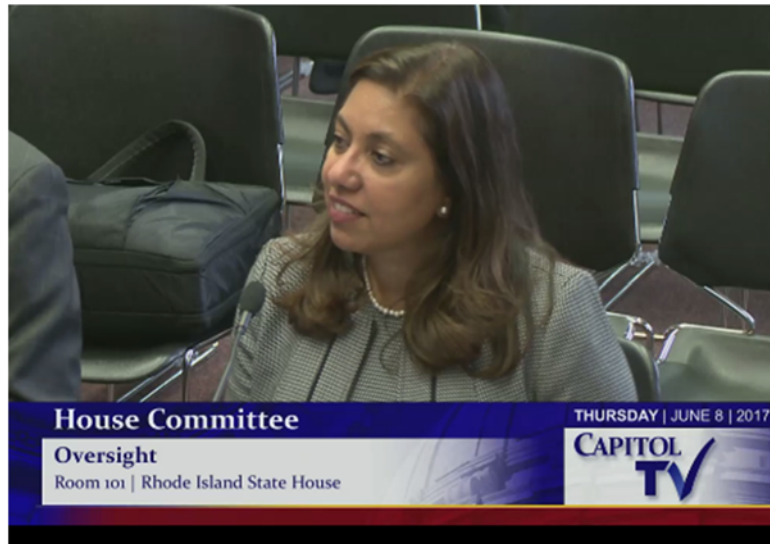
The number of refunds issued by the Division of Taxation, the total dollar amount of refunds, and the average refund are all at five-year highs, Tax Administrator Neena S. Savage said in a statement in June.

"Last year was a challenging year, but after a complete process redesign, intense team work, and careful application of lessons learned, Neena's team have set record levels in performance," Hull noted in the statement.

"This much-improved performance has occurred even as the Division of Taxation finalized the last elements of a once-in-a-generation change in technology," Hull said.

"The Division's numerous milestones this year were reached even as the Division served more taxpayers – through emails, phone calls, and walk-ins; stepped up efforts to protect taxpayer confidentiality; combatted the nationwide epidemic of tax refund fraud and refund-related identity theft; and completed some of the finishing touches on its new agency-wide computer system," known as STARRS, Hull said.

"The State of Rhode Island and its taxpayers have been well-



**Presentation:** Rhode Island Tax Administrator Neena S. Savage (above), Rhode Island Department of Revenue Director Robert S. Hull (below, left), and Assistant Tax Administrator Michael F. Canole (below, right) presented testimony in June before the House Oversight Committee at the State House in Providence regarding the Division of Taxation's successful 2017 filing season.



served by Rhode Island Tax Administrator Neena S. Savage and her capable staff."

The work is not over; the Division will continue to process returns and refunds for months to come, while staff work on correcting returns that contained errors when filed, contacting tax-

payers as needed to obtain additional information, and fixing and refining internal processes to speed the return and refund process, among other things.

In addition, the Division continues to receive and process returns that are filed on extension by this year's October

deadline.

DOR and Division of Taxation leaders testified about the successful filing season during a House Oversight Committee hearing at the State House in June.

## 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.

#### Property-tax relief credit

Is the taxpayer eligible for the Rhode Island property-tax relief credit?

The State of Rhode Island provides a property-tax relief credit through the personal income tax system. To claim the credit, a taxpayer must clear a number of hurdles.

For example, household income cannot exceed \$30,000. Another provision says that if the taxpayer is a renter, only 20 percent of the rent can be taken into account for purposes of the credit.

Furthermore, under the formula set forth in Rhode Island General Laws § 44-33-9, the credit is allowed only to the extent that the qualifying amount of rent exceeds a certain percentage of the claimant's household income for that taxpayer year.

For example, if the taxpayer's household income is \$29,000, and the taxpayer's rent is \$8,500, no credit is allowed. That's because 20 percent of the rent ( $\$8,500 * 0.20 = \$1,700$ ) does not exceed 6 percent of the household income ( $\$29,000 * 0.06 = \$1,740$ ).



*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.*

Thus, as a general rule, the lower your income and the higher your property tax or rent, the more likely you are to qualify for the credit (or qualify for a higher credit amount).

The higher your income and the lower your property tax or rent, the less likely you are to qualify for the credit (or you'll qualify for a lower credit amount).

In this case, the income shown on the taxpayer's initial Rhode Island personal income tax return for tax year 2015 was less than her rent. After meeting with the Division, it was determined that

her household income was higher than originally reported, though still less than the \$30,000 cap.

However, even though the taxpayer in this case met the income threshold, she was not eligible for the credit once the calculations were made based on the amount of income, rent, and household size.

A hearing was held, but the taxpayer did not appear. On April 3, 2017, Hearing Officer Catherine R. Warren ruled that the taxpayer was not eligible for the property tax credit for the 2015 tax year and that the Division properly denied her claim for the credit. Shortly thereafter, Tax Administrator Neena S. Savage adopted Warren's decision and recommendation.

-- Final Decision and Order  
No. 2017-05

#### Federal change

In 2016, the Division of Taxation received information that the taxpayers' 2012 federal return had a higher adjusted gross income that was listed on their Rhode Island return.

The Division issued a Notice of Deficiency. The taxpayers mailed a check for the tax due – but not for the penalty or interest that had also been assessed.

*(Please turn to page 8)*



#### 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 IN SUMMARY** (CONTINUED FROM PAGE 7)

Rhode Island General Laws § 44-30-59 essentially says that if the income shown on your federal return is changed, you must notify the Division of Taxation. And even though there is normally a three-year limit on the Division to assess personal income tax owed by a taxpayer, the limit does not apply when a taxpayer has failed to file a report of a change in income under Rhode Island General Laws § 44-30-59.

A hearing was held; the taxpayers did not appear. The hearing officer determined that the taxpayers had failed to file the required amended Rhode Island return, and although they had paid the required tax, they had failed to pay the interest and penalty.

In April 2017, the hearing officer determined that the Division had properly assessed the taxpayers for tax, interest, and penalty, and that interest and penalty were still outstanding. On May 2, 2017, the tax administrator adopted the decision and recommendation.

-- Final Decision and Order No. 2017-06

**Sales tax audit**

As a result of an audit of a



**Statute of limitations for Rhode Island personal income tax refunds** [Rhode Island General Laws § 44-30-87]

A claim for credit or refund of an overpayment of tax must be filed within three years from the time the return was filed or two years from the time the tax was paid, whichever of the periods expires the later.

<p>Three-year rule </p>	<p>If the claim is filed within the three-year period, the amount of the credit or refund cannot exceed the amount of the tax paid within the three-year period.</p>
<p>Two-year rule </p>	<p>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 amount of the tax paid during the two years immediately preceding the filing of the claim.</p>

**Note:** Any income tax withheld from the taxpayer during any calendar year, and any amount paid as estimated income tax for a taxable year, is deemed to have been paid on the fifteenth day of the fourth month following the close of the taxable year for which the payments were being made.

**Example of how the rules apply**

Maria's 2012 return was due on April 15, 2013. She actually filed the return on July 1, 2015. As a result, July 1, 2015, becomes the starting date for the three-year rule. The three-year period thus runs from July 1, 2015, to July 1, 2018. Were there any Rhode Island income tax payments attributable to 2012 during this three-year period? No.

When Maria worked in 2012, Rhode Island personal income tax was withheld from her wages each week for 52 weeks. By statute, the wage withholding was deemed paid on April 15, 2013. Maria then had two years from the April 15, 2013, payment date to file a 2012 return. Was the return filed within the two-year period? No. Maria does not pass either the three-year rule or the two-year rule. Her refund claim is therefore denied.

retailer, the Division of Taxation issued a Notice of Deficiency and the taxpayer requested a hearing.

At a pre-hearing conference, the parties agreed to use a test period, using register tapes, to determine sales tax. Based on those records, the Division determined that the taxpayer still owed additional sales tax

after the post-audit review, but reduced the amount owed.

At a hearing, the taxpayer proposed an alternative methodology to calculate taxable sales, but it was based on hypothetical mark-ups, whereas the Division's audit was based on records of purchase made by the taxpayer to determine the percentage of taxable sales.

The hearing officer on April 24, 2017, found that the taxpayer owes the revised tax, interest, and penalty. On May 8, 2017, the tax administrator adopted the decision and recommendation.

-- Final Decision and Order No. 2017-07



**Practitioners' Corner****QUESTIONS AND ANSWERS ABOUT STATE TAXES**

**Q: I have to mail in a Rhode Island Form RI-1120S, for a subchapter S corporation. (It's for the 2015 tax year, so I cannot e-file it.) Can you tell me if the copy of the U.S. Form**



**1120S that is attached to the Rhode Island Form RI-1120S needs to be signed by the taxpayer and tax preparer? The instruction on the form is to attach a copy, but it doesn't say a signed copy.**

A: We will accept an unsigned copy of the federal return attached to the signed Rhode Island return.

**Q: I received a Notice of Deficiency from the Rhode Island Division of Taxation. The Notice involves a trust's income tax return, filed on Form RI-1041. The Notice did not include the trust's federal Employer Identification Number (EIN), as it normally would. Instead, the Notice included an account ID number. Is this correct?**

A: Yes. We are in the process of assigning account ID numbers to various entities, including trusts. The change is

intended to result in greater ID protection and more security for entities, particularly by limiting use of an entity's federal Employer Identification Number or other such tax ID number.

In addition, the change is intended to allow the Division of Taxation to post payments to the Division's new agency-wide computer system more efficiently and effectively. For example, the change will improve the speed and accuracy with which payments are credited to the entity's account.

You'll still use the entity's federal EIN for purposes of filing its annual return on Form RI-1041.

**Q: An individual I know will have qualified distributions this year from a Section 529 plan. (Such plans come with certain tax advantages and are typically used to help pay for a beneficiary's college education.) I realize that the qualified distributions will not be subject to federal personal income tax. Will they be subject to Rhode Island personal**

**income tax?**

A: No. As a general rule, if an item of income is included in a person's federal adjusted gross income (AGI), it is included in the person's income for purposes of Rhode Island personal income tax.

A qualified, nontaxable distribution from a Section 529 plan is not included in federal AGI, and is not included in income for Rhode Island tax purposes, either. So the tax benefit for Rhode Island purposes is automatic. If you have a qualified, nontaxable distribution from a Section 529 plan, don't list it on your Rhode Island return.

**Q: My client had \$35,000 in household income in 2016. He incurred a \$10,000 loss from rental property, resulting in \$25,000 in household income. That's below the \$30,000 household income ceiling for the property-tax relief credit (Form RI-1040H). But the Division denied him the credit. Why?**

A: Under Rhode Island General Laws § 44-33-3(7), for purposes of the property-tax relief credit, the calculation of "income" shall not include any deductions for rental losses, business losses, capital losses, exclusion for foreign income, and any losses received from pass-through entities.

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### 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.

**Practitioners' Corner****QUESTIONS AND ANSWERS ABOUT STATE TAXES** (CONTINUED FROM PAGE 9)

Thus, based solely on the facts and circumstances described in your question, your client's loss involving rental property was properly denied, putting his household income at \$35,000, which exceeds the credit program's \$30,000 threshold.

**Q: I bought a cell phone from a store. The store charged me 7 percent sales tax, as well as a 5 percent "gross earnings" tax, for a total of 12 percent. I asked about the 5 percent tax, and they said they have to charge the customer 5 percent because it's a mandatory state tax. Is that correct?**



A: Rhode Island has a 7 percent sales tax. In general, the tax is applied to the transaction – it is collected by the retailer and forwarded to the Division of Taxation.

The other tax that you mentioned is not applied to the transaction. Rather, it is applied to a public service corporation's gross earnings, as provided by Rhode Island General Laws Chapter 44-13. The tax rate depends on the nature of the business activity. For example, the tax rate for a telecommunications corporation is 5 percent. It's a tax on the business, not a tax on the transaction.

Nevertheless, some businesses that are subject to the tax choose to charge the customer a fee in an amount equal to the tax. They may choose to call the fee "gross earnings tax" or something else, and they may choose to put that fee on your bill.

Businesses pay many other taxes, such as Social Security tax, Medicare tax, and federal and state unemployment insurance tax, but they typically choose not to charge the customer a fee in an amount equal to any of those taxes. Nor do the businesses typically put those fees on the customer's bill.

The businesses also have many other operational costs, such as payroll and insurance, but they typically choose not to charge the customer a fee in an amount equal to those operational costs. Nor do the businesses typically put those fees on the customer's bill.

But if a business wants to make an entry on your bill and call it a gross earnings tax, the business is free to do so; there is no law against.

**Q: A nonprofit corporation, which normally files federal Form 990, filed no Rhode Island return because there was no unrelated business income. The nonprofit did file federal**

**Form 990T with the IRS in order to claim the health insurance premium credit for paying employee health insurance. But there was no unrelated business income, and so no Rhode Island return was filed. The nonprofit had to get a letter of good standing and was then notified that it had not filed the necessary Form RI-1120C for those years in which it filed the IRS Form 990T only to claim the health insurance credit (refund). In order to get the letter of good standing, they had to file the RI-1120C and pay the related minimum tax for each of the years in question.**

A: A nonprofit has a Rhode Island filing requirement only if it has unrelated business income. Based only on the facts and circumstances you described in your question, it appears that your nonprofit client had no UBIT, so there is no need to file a Rhode Island Form RI-1120C.

By the way, other nonprofits who are not claiming the health insurance premium credit and who need a letter of good standing should fill out the nonprofit affidavit attached to the letter of good standing application.

*(Please turn to page 11)*

**Rulings online**

The Rhode Island Division of Taxation recently posted the first two declaratory rulings of 2017. One involves a bundled transaction, the other involves cloud computing.

**Ruling 2017-01:** A taxpayer requested a declaratory ruling to determine whether its product is exempt from Rhode Island sales and use tax – either as a paid monthly or annual subscription, or as a free one-month trial. To view the ruling, click here.

**Ruling 2017-02:** A taxpayer requested a declaratory ruling to determine whether sales of certain cloud computing services and fees are subject to Rhode Island sales tax. To view the ruling, click here.

<http://www.tax.ri.gov/declaratoryrulings/>

**Practitioners' Corner****QUESTIONS AND ANSWERS ABOUT STATE TAXES** (CONTINUED FROM PAGE 10)

**Q: If I intended to file the Form RI-1065 partnership information return on extension, must I file the extension form, or can I just pay and attach a voucher?**

A: You should file the extension form. If the full tax payment is paid by the due date on a regular voucher, there will be no late-filing penalty when you go to file the actual return itself.

**Q: Each year, I buy a popular tax software program at a local store, load it onto my computer, and use it to prepare my federal and Rhode Island personal income tax returns. There's no charge to e-file the federal return, but the State of Rhode Island charges me a fee to e-file my Rhode Island return. Why?**

A: That fee is charged by the company that makes your popular tax software. It is not charged by the State of Rhode Island.

If you are concerned about paying a software company a fee to e-file your state return, consider contacting the software company to let the company know.

Also, many different companies make tax-preparation software. Whether you shop in a store or online, terms and conditions -- including fees -- vary widely.

We have long encouraged e-filing, mainly because it is faster than filing a paper return, results in fewer errors, and is more efficient.

Also, don't forget that, if you qualify, you may be able to prepare your federal and Rhode Island returns online at no charge, and e-file them at no charge, through the Rhode Island Free File program. The Rhode

Island Free File program is available only through the following Division of Taxation website:

<http://www.tax.ri.gov/misc/efile.php>. Details of the program are on the website.

**Q: This is a question about the tax and tax-reporting requirements for surplus lines insurance brokers/licensees. My client surrendered his license in 2017. No business was reported for the 2016 policy term by him or by the entity with which he was affiliated. Must he still file for 2016?**

A: It appears that 2016 was the last tax year prior to surrendering the license.

This means he should file an annual surplus lines tax return with us for 2016. This would avoid any confusion if he ever decides to obtain a new license in Rhode Island in the future. His record would reflect that all of his returns were filed. Since he has surrendered the license and did not have any business to report, he would not be

assessed a penalty for filing the return after the April 1, 2017, filing deadline.

For more information, see our detailed publication, "Surplus

Lines Brokers/Licensees: Guide to Tax Filings and Payments." Use the following link:

<http://go.usa.gov/x8mYW>

**E-file reminder**

The Rhode Island Division of Taxation this year accepts the following returns under its electronic filing program (e-file):

- ◆ Form RI-1040
- ◆ Form RI-1040NR
- ◆ Form RI-1120C
- ◆ Form RI-1120S
- ◆ Form RI-1065

**Tax tip line**

If you have information about wrongdoing involving state taxes, call the tax fraud tip line at (401) 574-TIPS or (401) 574-8477 and leave a message.

The line is staffed by the Rhode Island Division of Taxation's Special Investigation Unit, which follows up on all tips. Callers can leave their names and contact information or remain anonymous.





## 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 rulings, 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 [Neil.Downing@tax.ri.gov](mailto:Neil.Downing@tax.ri.gov) with the word SUBSCRIBE in uppercase in the subject block.

### COMMENTS AND SUGGESTIONS

Unless otherwise indicated, all articles and photos in this issue are by the newsletter's editor, Neil Downing. If you have comments or suggestions for *Rhode Island Tax News*, please email: [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 3:30 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

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One Capitol Hill  
Providence, R.I. 02908

##### Telephone

Phone: (401) 574-8829  
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*The Division also thanks Hearing Officer Catherine Warren for her assistance.*