

# RHODE ISLAND TAX NEWS

A NEWSLETTER FOR TAXPAYERS AND PREPARERS

JANUARY/FEBRUARY/MARCH 2014

## WHAT'S NEW FOR FILING SEASON

The new filing season brings some changes that you should know about.

There are no major developments. But there are some key points – especially ones that will be of interest

to practitioners. Following is a summary:

### 'Where's my refund?'

The Division of Taxation's online "Where's my refund?" tool has been up-

graded in time for filing season. As a result, more taxpayers using the tool will be provided with definitive information online if their refund has been delayed.

*(Please turn to page 4)*



**Seminar:** Charles J. Larocque, CPA, chief of the Rhode Island Division of Taxation's Corporate Tax section, talked about what's new for filing season during the agency's "Seminar for Tax Preparers" at the Community College of Rhode Island's Warwick campus in December. Other presenters included Donald W. Englert (seated, at left), chief of the Division of Taxation's Excise Tax section.

## CHANGES NOW IN EFFECT FOR TAX YEAR 2014

Several changes in Rhode Island state tax law are now in effect.

Some of the changes affect businesses; others affect individuals. Following is a summary:

### Section 179 expensing

Rhode Island now treats Section 179 expensing the same way that the federal government does.

Under legislation approved by the General Assembly

and signed into law in July 2013 by Governor Lincoln D. Chafee, Rhode Island "recoupled" to Internal Revenue Code § 179 -- for the Section 179 deduction - effective January 1, 2014.

*(Please turn page 2)*

### Inside:

#### ANNUAL SALES TAX RECONCILIATION

- *Reminder by postcard*
- *Special form for liquor stores, package stores*
- *Bars, restaurants to use regular form*
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# CHANGES NOW IN EFFECT FOR 2014 (CONTINUED FROM PAGE 1)

Rhode Island had decoupled in 2003 when a federal law significantly expanded the deduction. As a result, the Section 179 deduction for Rhode Island tax purposes had been limited to \$25,000 in any taxable year.

However, as a result of the new Rhode Island law, Rhode Island once again follows federal law in this regard.

Thus, a taxpayer will generally be able to follow federal law when electing to treat the cost of any Section 179 property as a current-year expense.

Under the new Rhode Island law, any cost so treated shall be allowed as a deduction for the taxable year in which the Section 179 property is placed in service. The new Rhode Island law applies to all qualified assets placed in service on or after January 1, 2014.

*[Editor's Note: For Section 179 property placed in service for tax years beginning in 2014, the maximum deduction is \$25,000 per year under federal law – and, therefore, under Rhode Island law – unless federal law changes.]*

## 'Production deduction'

Corporations are no longer able to obtain a Rhode Island tax benefit for the federal domestic production activities deduction (also known as the



**Proclamation:** Rhode Island Governor Lincoln D. Chafee (center) signed a proclamation at the State House in Providence declaring October 2013 as "Arts and Humanities Month." He was joined by Randall Rosenbaum (left), executive director of the Rhode Island State Council on the Arts; Elizabeth Francis, executive director of the Rhode Island Council for the Humanities, and others. On December 1, 2013, the entire state became an arts district, which generally means that sales by artists throughout the state are free from state sales tax.

Photo by Michael Rooney / Governor's Office

"production deduction" or "DPAD" under IRC § 199). Thus, corporations will have to add back into their taxable income for Rhode Island purposes any amount they deduct at the federal level through the production deduction.

The new law applies to tax years beginning on or after January 1, 2014.

## Arts district

Effective December 1, 2013, the entire state is now an arts district for purposes of the sales and use tax. As a result, under the new law, an exemption from Rhode Island's 7 percent sales and use tax now applies to the sale of an original and creative work

-- whether written, composed, or executed for "one-of-a-kind" or "limited edition" production -- by writers, composers, and artists that are sold in Rhode Island, whether at galleries or elsewhere. (Under former law, the exemption generally applied only to sales by writers, composers, and artists residing in and conducting a business in designated areas in certain municipalities.)

Rhode Island is the first state to allow for such a statewide sales tax exemption involving such original and creative works, according to the Rhode Island State Council on the Arts.

To learn more about the

statewide arts district, and about related tax matters, please use the following resources:

- ◆ [The Division of Taxation regulation](#)
- ◆ [The special section of the Rhode Island State Council on the Arts website](#)
- ◆ [The Division of Taxation Advisory](#)

## Liquor exemption

For a 16-month period -- from December 1, 2013, through March 31, 2015 -- Rhode Island's sales and use tax does not apply to wine and spirits sold at package stores and liquor stores ("Class A" licensees).

*(Please turn to page 3)*

# CHANGES NOW IN EFFECT FOR 2014 (CONTINUED FROM PAGE 2)

Beer and other malt beverages will continue to be subject to tax.

### Standard deduction

For Rhode Island’s personal income tax, the standard deduction and exemption amounts for tax year 2014 have increased by more than 1 percent.

For example, for someone

who is single, the standard deduction amount is now \$8,100, up from \$8,000 for tax year 2013. For a married couple filing a joint return, the standard deduction amount is \$16,250, up from \$16,000. (Please see tables below for more information).

Also, the personal and dependency exemption amount for 2014 is \$3,800, up from

Personal and dependency exemption amounts	
For 2013:	For 2014:
\$ 3,750	\$ 3,800

Phase-out range for standard deduction, exemption amounts	
Tax year 2013:	Tax year 2014:
\$186,550 to \$207,950	\$189,700 to \$211,300

\$3,750 for tax year 2013.

### Phase-out

Most taxpayers are able to claim the full amount of the standard deduction to which they are entitled. The same is true for personal exemptions and dependency exemptions.

But if your federal adjusted gross income (as modified for Rhode Island tax purposes) exceeds a certain amount, your standard deduction amount – and the personal and dependency exemption amounts – will either be limited or reduced to zero.

*(Please see table above for phase-out range, table below for tax rate schedule.)*



**What’s New:** More than 100 tax preparers attended the Division of Taxation’s “Seminar for Tax Preparers” at the Community College of Rhode Island campus in Newport in November. Topics included what’s new for tax year 2014.

Standard deduction amounts		
Filing status:	For 2013:	For 2014:
single <sup>1</sup>	\$ 8,000	\$ 8,100
married filing jointly	16,000	16,250
head of household	12,000	12,200
married filing separately <sup>1</sup>	8,000	8,100

<sup>1</sup> – Standard deduction amounts for “single” and “married filing separately” are typically one-half the amount for “married filing jointly” – but are slightly less than half for 2014 due to rounding. (Amounts are determined based on inflation figures calculated by U.S. Bureau of Labor Statistics and inserted in formulas established under Rhode Island General Laws § 44-30-2.6.)

Rhode Island personal income tax: uniform tax rate schedule for 2014				
Taxable income:				
Over	But not over	Pay	+ percent on excess	of the amount over
\$ 0	\$ 59,600	\$ --	3.75%	\$ 0
59,600	135,500	2,235.00	4.75%	59,600
135,500	--	5,840.25	5.99%	135,500

# WHAT'S NEW FOR FILING SEASON (CONTINUED FROM PAGE 1)

## Tax Refund Status

- The overpayment claimed on your return does not match the amount we calculated. Send a schedule of payments made and/or your W-2(s)/1099(s).

### Please contact Taxation

Print this page and attach all the required documentation to the printout. The documentation should be **mailed to**:

**RI Division of Taxation**  
Attn: Where's My Refund  
One Capitol Hill  
Providence, RI 02908

Or **fax** to 401-574-8919.

Provide your contact information in the space below in case any additional information is required:

**Name:**

**Daytime Phone Number:**

**E-mail Address:**

**Circle Your Preferred Method of Contact:**     E-mail     Telephone

[PRINT](#)

[BACK](#)

[RI DIVISION OF TAXATION WEB SITE](#)

Before the upgrade, taxpayers who used the tool and found their refund to be delayed were advised only that their return was “under review” – with no additional information.

### Upgrade

With the upgrade, taxpayers who find their refund to be delayed will, in a number of situations, be advised by the tool why their refund is being held and what to do about it.

For example, if the estimated tax payments claimed on your return do not match the amount that the Division of Taxation has actually received, the message may ask you to send in a list of the payments you made, including dates and amounts. The mailing address will be provided.

Similarly, if there are problems involving the Schedule W on your personal income tax return, the message may ask you to send in a completed Schedule W with all Forms W-2 and Forms 1099 attached.

(The example above shows the instructions you may receive if the amount of your “overpayment” -- which generally means your refund -- does not match the amount as calculated by the Division of Taxation. In the example, the message asks for some paperwork and tells you where to mail or fax it. A table on the following page shows a number of different messages taxpayers may receive when using the upgraded “Where’s My Refund” tool.)

“Taxpayers were understandably frustrated by the

lack of detail under the old system,” Rhode Island Tax Administrator David M. Sullivan said. “We hope that taxpayers and preparers will be pleased by the results of the upgrade.”

The Division of Taxation hoped to have the upgrade available in 2013, but the process was delayed.

The upgrade was made possible through the combined efforts of the Division of Taxation’s Personal Income Tax and E-Government sections, and the agency’s online partner, RI.gov.

### E-file Form RI-1041

Rhode Island now allows for the e-filing of Form RI-1041 – the fiduciary return, which deals with income from a trust or estate.

However, whether you’ll actually be able to e-file your Form RI-1041 will depend on whether your software program allows for it. If your software program does not allow for it, ask your software provider to add it as a feature.

### Combined reporting

Schedule CRS had been added to Form RI-1120C for tax years 2011 and 2012 so that the Division of Taxation could study the potential impact of switching to combined reporting in place of separate entity reporting. But by statute, data for the study was only from tax years 2011 and 2012. As a result, for tax year 2013, Form RI-1120C no longer includes Schedule CRS.

*(Please turn to page 5)*



# WHAT'S NEW FOR FILING SEASON (CONTINUED FROM PAGE 4)

<b>Messages you may receive via "Where's My Refund" online tool</b>	
If the problem involves . . .	You may receive this message:
Credit for tax paid to another state	"You are claiming a credit for income tax paid to another state. Please provide a signed copy of your other state(s) tax return."
Schedule W	"There was an issue with the Schedule W required with your return. Need a completed Schedule W with W-2(s) and/or 1099(s) attached."
Schedule M	"Modifications on Schedule M do not add to Net Modification amount on Schedule M, Line 3. Need a completed schedule M with each modification listed on a line. If there is not a line for your modification, it is probably not allowed under RI law."
Math	"Balance Due or Refund Amount do not agree with the amount we calculated. Send a schedule of payments made and/or your W-2(s)/1099(s)."
Property-tax relief credit on Form RI-1040H	"Information missing on Form 1040H. Send a fully completed copy of your 1040H tax form including all required backup documentation such as three (3) 2013 rent receipts, lease agreement, property tax bill, etc."
Estimated tax payments	"Estimated payments claimed on your return do not match the amount we have received. Send a listing of payments made including dates and amounts."
"Other payments"	"Other payments claimed on your return do not match the amount we have received. Send a listing of payments made including dates and amounts."
Overpayment	"The overpayment claimed on your return does not match the amount we calculated. Send a schedule of payments made and/or your W-2(s)/1099(s)."

The Division of Taxation is in the process of preparing a detailed report on *pro forma* combined reporting; the report is due in mid-March.

### Change in forms

Many tax forms have a new look this season. It's mainly because of a new, agency-wide computer system that's being phased in gradually at the Division of Taxation.

One element of the new system involves installing and implementing a state-of-the-art scanning and imaging system, which will allow the agency to scan in returns and other forms that some tax-

payers file on paper. (For more about the scanning and imaging system, please see page 9.) To get the most of the new scanning system, the Division of Taxation is revising all forms to make them uniform in size and appearance.

Even if you prepare returns on your computer, when you print out the form it will look different.

Most forms will carry a bar code, displayed prominently toward the top right of the first page. The bar code will contain key information that the scanner will use to prop-

erly sort returns and forms.

### Same-sex marriage

Legislation approved by the General Assembly and signed into law by Governor Lincoln D. Chafee on May 2, 2013, allows eligible couples to marry regardless of gender.

As a result, from a Rhode Island tax perspective, same-sex married couples have the same rights and responsibilities that formerly applied only to opposite-sex married couples. The new law took effect August 1, 2013.

If you were married under

provisions of Rhode Island law as of December 31, 2013, use a "married" filing status this filing season on your Rhode Island personal income tax return covering tax year 2013. (For more information, please see the [Division of Taxation's FAQs](#).)

### Standard deduction

A number of key figures were adjusted for tax year 2013 to reflect inflation, including amounts for the standard deduction, personal exemption, and dependency exemption. (Please see the *Form RI-1040* and instructions for more information.)

# DAVID M. SULLIVAN ELECTED PRESIDENT OF FTA

Rhode Island Tax Administrator David M. Sullivan has been elected by his peers as president of the Federation of Tax Administrators (FTA).

In that role, Sullivan will serve as head of the board of trustees of the FTA, helping to set policy for the FTA and oversee its full-time staff.

The FTA, organized in 1937, is an association which serves the principal tax collection agencies of the 50 states, the District of Columbia, Philadelphia, and New York City. Its aim is to improve the quality of state tax administration by providing services to state tax authorities and administrators.

## FTA's services

The FTA's services include research and information exchange, training, and intergovernmental and interstate coordination. The Federation also represents the interests of state

tax administrators before federal policymakers where appropriate.

FTA Executive Director Gale Garriott said that Sullivan has "a very good educational background. He certainly has a wealth of state tax administration experience . . . and he's got a very strong appreciation for what our organization, the FTA, does for its members."

Garriott added, "We're looking forward to working with David so that our organization can continue to provide the high-quality tax administration services to our members."

Sullivan will continue as

Rhode Island Tax Administrator, overseeing the Rhode Island Division of Taxation.

The FTA board of trustees voted in November to replace president Cory Fong, who resigned as the North Dakota Tax Commissioner effective December 31, 2013.

Sullivan formerly was FTA first vice president; his one-year term as president took effect January 1, 2014.

## Appointed in 2006

Sullivan was appointed Rhode Island Tax Administrator in July 2006. As Tax Administrator, he oversees a staff of 200 employees responsible for the administration and enforcement of all personal and business taxes in Rhode Island. He is also treasurer for the North Eastern States Tax Officials Association.

Prior to joining the State of Rhode Island, Sullivan worked for the State of Delaware Division of Revenue for 10 years. In Dela-

ware he served as a manager in the Business Tax Section and as Deputy Director of Revenue for the last five years.

Originally from Philadelphia, Penn., Sullivan has worked in state and local taxes for 20 years.

## Master's in tax

Sullivan holds a bachelor of science degree in accounting and business management from Lebanon Valley College and a master's degree in taxation from Widener University. He and his wife, Catherine, have two children.

In 2010, the Internal Revenue Service chose Sullivan and 13 others from across the nation to serve on its Electronic Tax Administration Advisory Committee.

In 2011, Sullivan was chosen winner of the Rhode Island Public Expenditure Council's Gary S. Sasse Award, given for distinguished public service.

## Justice Award

In 2012, Rhode Island Attorney General Peter F. Kilmartin presented Sullivan and a team of Division of Taxation employees with the 2012 Justice Award for their efforts in cracking a multi-state cigarette-smuggling ring.

In 2013, the Division of Taxation under Sullivan's leadership began a multi-year effort to implement an integrated tax system.



**FTA President:** *Rhode Island Tax Administrator David M. Sullivan is the FTA's new president.*

***Rhode Island Tax Administrator David M. Sullivan has "a very good educational background. He certainly has a wealth of state tax administration experience . . ."***

- FTA Executive Director Gale Garriott



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
DEPARTMENT OF REVENUE  
DIVISION OF TAXATION  
ONE CAPITOL HILL  
PROVIDENCE, RI 02908  
WWW.TAX.RI.GOV

# 2013

## **SALES AND USE TAX RETURN - ANNUAL RECONCILIATION**

SALES AND USE TAX RETURN TO BE FILED BY SELLERS OF TANGIBLE PERSONAL PROPERTY

**DUE ON OR BEFORE JANUARY 31, 2014**

Name	Taxpayer ID
Address	

## CHANGES FOR SALES TAX RECONCILIATION

The Rhode Island Division of Taxation in December began mailing postcards to more than 30,000 retailers as a reminder to file the annual

sales tax reconciliation form.

In past years, the agency mailed the form itself.

But because so many retailers are filing online, the

agency decided this time around to end automatic bulk mailing of the form and instead just send postcard reminders.

(Sending postcards instead of forms also saves the Division of Taxation money, saving taxpayers money.)

The form serves as a kind of annual report for retailers. On the form, retailers account for their sales, deductions, and certain other items – including the amount of sales and use tax remitted.

It can be filed on paper, but many retailers find it more convenient to file online through the ACH debit process: <https://www.ri.gov/taxation/business/index.php>

### **Due date**

The return, on Form T-204R-Annual, is due on or before January 31, 2014. (An excerpt is shown above.)

For those who prefer to file the paper form, blank forms are available.

You may download a copy from the Division of Taxation's website: [www.tax.ri.gov](http://www.tax.ri.gov)

Or call the agency to request that a form be mailed to you at no charge: (401) 574-8970. Or send an e-mail to request that a copy be sent to you, using the following e-mail address: [TaxForms@tax.ri.gov](mailto:TaxForms@tax.ri.gov)

You may also obtain a form by visiting the Division of Taxation first-floor lobby at One Capitol Hill, Providence, R.I.

Remember, though, that by filing online you can save time and reduce errors, especially errors of omission.

*If you have questions about the sales and use tax, or about the annual reconciliation for sales tax, please call the Division of Taxation's Excise Tax section, at (401) 574-8955 from 8:30 a.m. to 3:30 p.m. business days.*

### BIG CHANGES THIS YEAR FOR RESTAURANTS, BARS

There are two types of annual sales tax reconciliation forms: the main one that most retailers use, and a special one for liquor stores and package stores.

What if you own a restaurant, bar, pub, or tavern? Last year at this time, you filed the special form. But this time around, use the regular form. The change is the result of a change in state law. It can seem confusing, but here's an easy way to remember it: If you sell alcohol, but you are not a liquor store or package store, use the regular sales tax annual reconciliation form, and file it by January 31, 2014.

The special form this year is only for liquor stores and package stores – Class A licensees. It's due by February 3, 2014. The Division of Taxation recently mailed the special form to the 220 Class A licensee liquor stores/package stores in the state.

*The distinction between the two types of annual sales tax reconciliation forms is only if you file on paper. If you file your annual sales tax reconciliation form online, you won't notice any difference.*

## NEW CHIEF OF INVESTIGATIONS UNIT APPOINTED

**S**haron G. Garner has been named chief revenue agent in charge of the Rhode Island Division of Taxation's new Special Investigations Unit (SIU).

A lawyer, she formerly served as legal counsel to the Rhode Island Lottery, which, like the Division of Taxation, is part of the Rhode Island Department of Revenue.

"We are delighted to have Sharon join us. With her depth and breadth of experience, she will be a perfect fit for the job," said Rhode Island Tax Administrator David M. Sullivan.

### Legal experience

"We selected Sharon from a field of very strong candidates. Her extensive legal experience was one of the top reasons we chose her," Sullivan said.

"As was noted when the job specs were posted, we needed someone in the new unit who not only would lead our team of top-flight investigators, but also would be a trained lawyer with legal experience. The legal background is espe-



**New Chief:** Sharon G. Garner is now chief of the Division of Taxation's Special Investigations Unit (SIU).

cially important because one of this unit's functions will be to recommend cases for criminal prosecution as warranted," Sullivan said.

Garner was born and raised in Bon Air, Virginia.

She studied at the University of Richmond, from

which she graduated in 2001 with a bachelor of arts degree in Latin and Classical Civilization, with minors in Greek and Religion.

She went on to the University of Virginia Law School, where she graduated in 2004 with a Juris Doctor degree.

While there, she worked as an intern for the Southern Center for Human Rights, in Georgia, and the Chesapeake Bay Foundation, in Richmond, Va.

After graduation, she worked as a deputy state public defender for the Colorado Public Defender's Office, in Greeley, Colo., and was later an assistant public defender with the Rhode Island Public Defender's Office -- where her work involved handling probation violations, bench trials, and jury trials.

### Legal counsel

In April 2013, she joined the Rhode Island Lottery as legal counsel.

She is proficient in Spanish and French and plays the banjo.

Her husband, Todd Strunk, is the president of [Sixteen On Center](#), of Tiverton, which designs and builds homes (known in the industry as a design/build firm.) The couple lives in Little Compton with their two-year-old daughter.

## SOME EMPLOYERS MUST FILE WITHHOLDING MORE FREQUENTLY

The Rhode Island Division of Taxation recently told about 1,600 employers that -- effective January 1, 2014 -- they must increase the frequency with which they deposit withholding tax.

Employers withhold Rhode Island personal income tax from employees and pay it over to the Division of Taxation either quarterly, monthly, quarter-monthly, or daily -- depending on how

much is withheld. After reviewing returns over the last year or so, the Division of Taxation found that some employers should be filing more frequently based on the amount withheld.

Most of the letters recently sent out advised quarterly filers to file more frequently. An employer may file quarterly only if there is less than \$50 withheld each month.



## NEW IMAGING/SCANNING MACHINE IN PLACE

A high-speed scanning and imaging machine has arrived at the Rhode Island Division of Taxation in Providence.

The new machine, manufactured by IBML, based in Birmingham, Ala., arrived on October 21, 2013. Testing and training will occur over the next several months.

The machine is scheduled to go “live” in mid-2014, and when it does, it will change the way the agency does business.

For example, when a return is sent to the Division of Taxation on paper with a check, employees must type the information into the Division of Taxation’s main-frame computer. The check must be set aside for processing at a bank. But once



**Upgrade:** A new high-speed scanning and imaging machine recently arrived at the Division of Taxation. Photos on this page show the machine from different vantage points, operated by Daniel T. Clemence, chief of the agency’s E-Government section.

the new machine is in full operation, employees will feed the return and the check directly into the machine, which will be able to process

the return and check and take a picture (an “image”) of them.

### Capturing data

In many cases, the IBML scanning and imaging machine will be able to “capture” the data off of the form – such as a taxpayer’s name, address, taxpayer ID, and dollar amounts – and enter the data directly into the computer system.

The IBML will be going through development for many months after it’s installed.

The new machine is one piece of a much broader project -- the installation and implementation of the agency’s integrated tax system.

The Division of Taxation formally launched the project on May 1, 2013, as scheduled. The new system is known as the State Tax Administration and Revenue System (STAARS).

A budget bill approved in 2012 by the General Assembly and signed into law by Governor Lincoln D. Chafee authorized the agency to acquire the system and software, hardware, and related services for implementation, maintenance, and support.

### Taxes and fees

The Division of Taxation, part of the Rhode Island Department of Revenue, administers more than 50 different types of state taxes and fees, and collects more than \$2.9 billion a year - money that helps pay for vital public services. The agency’s new system will provide a full suite of processing and administrative functionality for the taxes and fees that the agency oversees.

In addition, taxpayers and tax practitioners will eventually gain secure online access to an array of services on the agency’s website, said Rhode Island Tax Administrator David M. Sullivan. The Tax Division needs the new system so it can consolidate tax information which is now dispersed across a number of different platforms -- some antiquated and ill-suited for the agency’s requirements.



# TAX DIVISION SETS INTEREST RATES FOR 2014

<b>Interest Rates</b>		
<b>Personal Income Tax Re-funds</b>		
<b>From</b>	<b>To</b>	<b>Rate</b>
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 2014 to overpayments and delinquencies.

The rates are the same as those that applied for 2013.

### Interest on underpayments

The interest rate on delinquent tax payments has been set at 18 percent per annum for calendar year 2014.

### Interest on overpayments

Interest on overpayments for calendar year 2014 will be at the rate of 3.25 percent per annum.

### A look back

For taxpayers and practitioners who are dealing with prior years (and for history buffs), 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.

<b>Interest Rates</b>		
<b>Personal Income Tax Assessments</b>		
<b>From</b>	<b>To</b>	<b>Rate</b>
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%

## ESTATE TAX THRESHOLD NOW EXCEEDS \$920,000

The Rhode Island estate tax threshold is now \$921,655 for decedents dying on or after January 1, 2014.

That compares with \$910,725 for decedents dying in 2013, an increase of 1.2 percent.

Thus, in general, for a decedent dying in 2014, a net taxable estate valued at \$921,655 or less will not be subject to Rhode Island's estate tax. (In certain circumstances, the Rhode Island estate tax will not apply no matter the estate's size: Rhode Island General Laws chapter 44-22 provides full details on the computation of the tax, including such factors as the marital and charitable deductions.)

Legislation approved by the General

For estate of decedent whose death occurs in:	Rhode Island estate tax threshold amount:	Unified credit amount:
2014	\$ 921,655	\$ 315,245.45
2013	\$ 910,725	\$ 310,982.75
2012	\$ 892,865	\$ 304,017.35
2011	\$ 859,350	\$ 290,946.50
2010	\$ 850,000	\$ 287,300.00
2009	\$ 675,000	\$ 220,550.00

Assembly and enacted in 2009 raised the threshold to \$850,000, from \$675,000, effective for decedents dying in 2010.

That law also required that the threshold amount be adjusted each January thereafter based on inflation. Also, the unified

credit amount is \$315,245.45 for decedents dying in 2014, up from \$310,982.75 for 2013.

*More information about the estate tax is available from the Division of Taxation's Estate Tax section, at (401) 574-8900.*

**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.*

**Purchase of a car**

When a taxpayer trades in a car for another car, the portion of the purchase price that's applicable to the trade-in is exempt from Rhode Island's 7 percent use tax.

In this case, the taxpayer claimed that no tax was involved on her purchase because she had traded in another car.

After the Division of Taxation questioned the details of the trade-in, the taxpayer switched her story: she said her old car had actually been involved in an accident and was declared a total loss. But there still should be no tax involved because she used the insurance proceeds to buy the new car.

Prior to October 1, 2011, insurance proceeds -- in other words, proceeds received from an insurance claim as a result of a vehicle declared a total loss -- that were applied to the purchase of a vehicle were exempt from the tax. (Thus, if your old car was totaled and you applied the insurance proceeds toward the purchase of a new car, the portion of the purchase appli-



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.*

cable to the insurance proceeds was not taxed.)

However, because of a change in the statute, the portion of a car's purchase price applicable to such insurance proceeds is no longer exempt -- effective for transactions on or after October 1, 2011.

The taxpayer in this case argued, in part, that the transaction took place on September 30, 2011, the day before the law changed.

The Division of Taxation cited records showing that the transaction actually took place months after the change in the law, thus triggering the tax.

In her decision, Hearing Officer Catherine R. Warren determined that the taxpayer

"initially tried to evade the tax by claiming that the Previous Car was traded in when that was known to be untrue. When the Division determined that the Previous Car had not been traded in, the Taxpayer then tried to argue that the Car sale was prior to October 1, 2011. However, the Taxpayer tried to evade the tax on the Car by claiming a trade-in not allowed by law and which the Taxpayer knew was untrue . . . ."

Thus, citing Rhode Island General Laws § 44-18-30 (23), Warren ruled on December 13, 2013, that the taxpayer was not entitled to a tax exemption for the insurance proceeds.

Warren recommended that the taxpayer owes the 7 percent use tax, interest (which currently accrues at the rate of 18 percent a year), a 10 percent penalty, plus a 50 percent intent-to-evade penalty.

Rhode Island Tax Administrator David M. Sullivan on December 16, 2013, adopted the hearing officer's decision and recommendation.

**- Final Decision and Order  
No. 2013-05**

**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](#)).

# UNEMPLOYMENT INSURANCE TAX CHANGES: 2014

The taxable wage base for calculating Rhode Island’s unemployment insurance (UI) tax will increase by about 2 percent for 2014.

For most employers, it will be \$20,600 for 2014, compared with \$20,200 for 2013, an increase of \$400, or 1.98 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 \$22,100 for 2014, up from \$21,700 for 2013, an increase of \$400, or 1.84 percent.

In general, the higher wage base impacts about 17.5 percent of Rhode Island 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 2012, about 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 financed by assessments on more than 30,000 private-sector businesses 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 2014, the same as for 2013 (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: In 2014, that rate will be 2.85 percent, compared with the 2.83 percent

Rhode Island employer tax: key figures	
Number of employers:	33,125
Number of employees:	539,506
Division of Taxation data for calendar year 2013, second quarter.	

rate in 2013.)

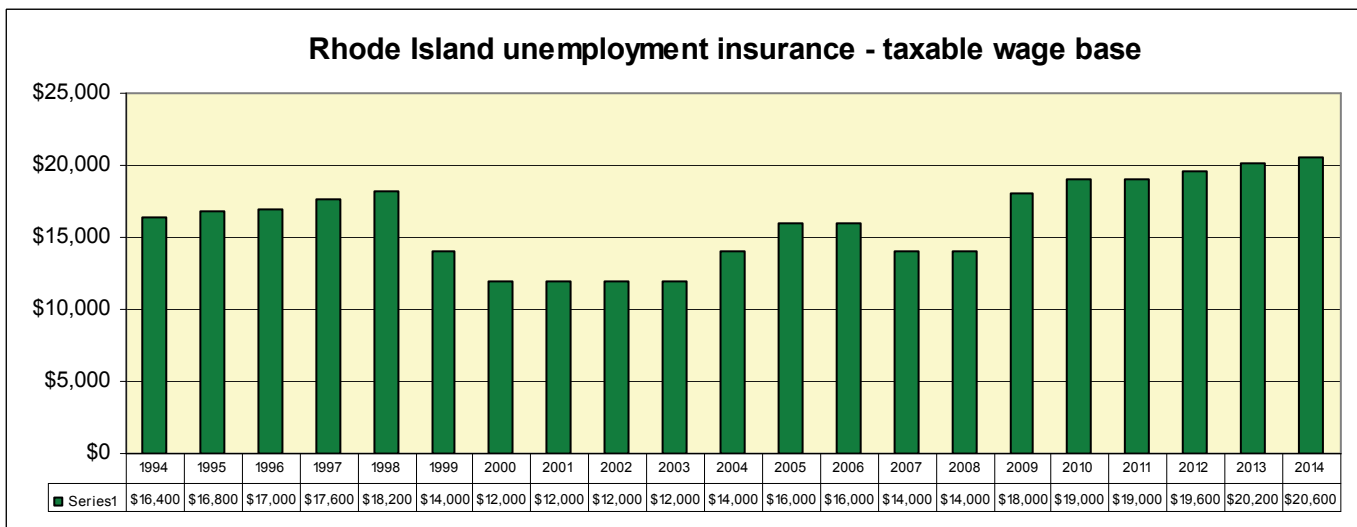
Changes in the Rhode Island General Laws altered some of the key elements in the state’s unemployment insurance tax formula for 2012 and later years. The changes were part of a broader effort to restore the state’s unemployment insurance trust fund, which pays unemployment benefits and became insolvent 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 it was before the 1998 law took effect.

In addition, the 2011 law ushered in a higher taxable wage base for those employers who have had the greatest negative effect on the state’s unemployment insurance trust fund. For them, the taxable wage base is \$1,500 higher than it is for other employers.

*The state UI tax rates mentioned above do not include the Job Development Fund tax, which equals 0.51 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](#).*





# EMPLOYERS FACE INCREASE IN FUTA TAX

Employers in Rhode Island will have to pay more this year in federal unemployment insurance tax per employee as provided under the Federal Unemployment Tax Act (FUTA).

Employers will encounter the higher-than-usual FUTA tax when they complete and file their FUTA tax return for 2013. The return, on U.S. Form 940, is due on or before January 31, 2014.

The reason has to do with the recent recession. Rhode Island, like many other states, did not have enough money in the state unemployment insurance trust fund to cover benefit payments to the unemployed.

As a result, Rhode Island and the other states had to borrow from the federal government to help cover benefit payments.

And because of the way the rules work, employers in Rhode Island and many other states must now pay higher-than-usual FUTA tax until the federal loans are paid off. A total of 15 states, plus the U.S. Virgin Islands, had a combined total of \$20.59 billion in such loans outstanding as of December 30, 2013. (Please see table at top right of this page.)

### The usual rules

Here's how things normally work: 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 FUTA 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

States with FUTA credit reduction	
State:	Credit reduction:
Arkansas	0.9%
California	0.9%
Connecticut	0.9%
Delaware	0.6%
Georgia	0.9%
Indiana	1.2%
Kentucky	0.9%
Missouri	0.9%
New York	0.9%
North Carolina	0.9%
Ohio	0.9%
<b>Rhode Island</b>	<b>0.9%</b>
Virgin Islands	1.2%
Wisconsin	0.9%

These states had federal unemployment loan balances on January 1 of at least two consecutive years and on November 10, 2013, and did not qualify for credit reduction avoidance.

0.3% for the first year the state is considered to be a "credit reduction" state, another 0.3% for the second year, and an additional 0.3% 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.

And so, for the return to be filed on or before January 31, 2014, Rhode Island employers will get a special credit of 4.5 percent, instead of 5.4 percent.

In other words, Rhode Island employers will wind 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 otherwise apply if the federal loan were paid off (the 6.0 percent FUTA tax rate minus the normal 5.4 percent credit = 0.6 percent).

### The bottom line

So, setting aside all the formulas and the math, here's the bottom line: A Rhode Island employer will have to pay a FUTA tax of \$105 per employee with the federal return due January 31, 2014, instead of the normal \$42 per employee for 2013.

In total, 14 jurisdictions – including 13 states and the U.S. Virgin Islands – are

States with UI loans outstanding (balances as of Dec. 30, 2013)	
Arkansas	\$117,351,694
California	\$9,724,315,387
Connecticut	\$573,666,964
Delaware	\$71,442,484
Georgia	\$145,251,345
Indiana	\$1,383,771,814
Kentucky	\$639,787,795
Missouri	\$321,569,512
New Jersey	\$128,751,221
New York	\$3,052,968,338
North Carolina	\$1,830,098,795
Ohio	\$1,552,346,347
<b>Rhode Island</b>	<b>\$108,997,317</b>
South Carolina	\$456,512,367
Virgin Islands	\$82,343,930
Wisconsin	\$399,433,696
<b>Total</b>	<b>\$20,588,609,006</b>

subject to a credit rate reduction of some sort covering 2013, so employers in those jurisdictions will have to pay higher-than-usual FUTA tax on the federal returns they file on or before January 31, 2014. Please see table at left.

*Click [here](#) to learn more about FUTA and state unemployment insurance taxes and how they work. Click [here](#) to learn more about the impact of the credit reduction on the FUTA tax. Click [here](#) to see the effect by state – for 2013 and for historical data (under the "Subject Data Available" heading). Click [here](#) to view the special Rhode Island employer tax announcement which explains the impact on Rhode Island employers.*

# NEW WEB PAGE FOR HISTORIC TAX CREDITS

When the state’s new historic tax preservation tax credit program was enacted in July 2013, it included transparency provisions.

The new program -- approved by the General Assembly and signed into law by Governor Lincoln D. Chafee -- essentially says that taxpayers should know where their tax dollars are going. Thus, the Rhode Island Division of Taxation has created a special section of its website so that signed tax credit contracts can be publicly reviewed by the



people who pay for the program -- the taxpayers.

Each contract includes the name of the recipient, the project involved, the project’s cost, the amount of credits, and other details.

The old historic tax credit program has generally been closed since 2008. Certain projects were essentially grandfathered, but some other projects were “abandoned” – leaving about

\$34.5 million in credits available but unclaimed as of May 15, 2013. Those unclaimed credits became available to qualified applicants through the new program enacted July 3, 2013.

# MAXIMUM TDI TAX RISES 2.1% FOR 2014

The maximum tax under Rhode Island’s temporary disability insurance (TDI) program will increase 2.1 percent, to \$752.40 for 2014. That’s up by \$15.60 over the previous year’s top tax, \$736.80.

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.

For 2014, the amount of wages to which the TDI tax rate applies will increase \$1,300, or 2.1 percent, to \$62,700. The TDI tax rate will stay the same, at 1.2 percent.

As a result, the maximum TDI

tax for 2014 will increase to \$752.40 (the tax rate of 1.2 percent applied to \$62,700 of wages). For 2013, the maximum TDI tax was \$736.80 (the tax rate of 1.2 percent applied to \$61,400 of wages).

In general, the tax is paid by nearly 400,000 private-sector workers. (Whether the amount of your TDI tax goes up or down will generally depend on how much you earn.)

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 unemploy-

Year	Tax rate	Wage base	Max. tax
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

## CAREGIVERS

Rhode Island’s new temporary caregiver insurance (TCI) program generally provides up to four weeks of wage replacement benefits to workers who need to take time from work to care for a seriously ill child, spouse, parent, or certain others. [Click here to learn more.](#)

ment caused by injury or illness unrelated to work. [You can learn more about the TDI program at the DLT website.](#) Employers may learn more about TDI tax [at the Tax Division’s website.](#)

## DIVISION OF TAXATION REGULATORY UPDATE

The Rhode Island Division of Taxation will hold a public hearing in January 2014 on a proposed regulation involving the state's new historic preservation tax credit program.

The agency originally filed an emergency regulation in summer 2013 so that it would take effect August 1, 2013, and remain in force for 120 days, until November 29, 2013.

In late November, the agency renewed the emergency regulation, with no changes, so

that it could remain in effect through February 27, 2014. The proposed regulation is intended to succeed the emergency regulation and

provide guidance on the program to developers, tax advisers, and others.

Click [here](#) to view the proposed regulation and more information about the public hearing.

In another

matter, the Division of Taxation in November 2013 filed a final regulation involving the sales tax exemption for the new statewide arts district, which took effect December 1, 2013. Click [here](#) to view it. The final regulation was posted after the Division of Taxation

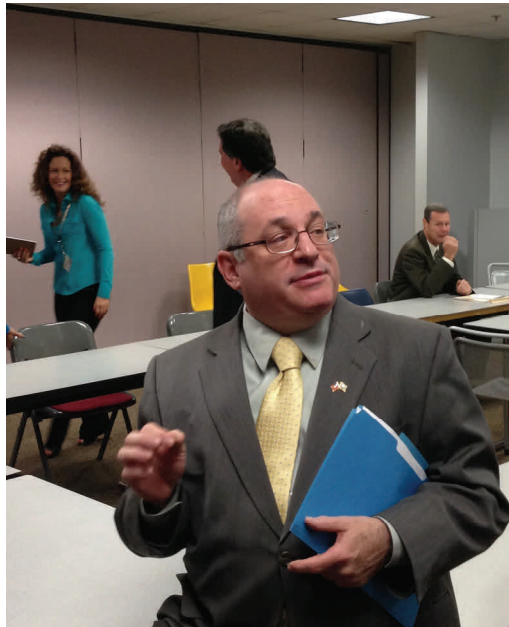
held a public hearing in October 2013 and took testimony from Randall Rosenbaum, executive director of the Rhode Island State Council on the Arts.

### Film tax credit

The Division of Taxation in November 2013 filed a final regulation reflecting changes in state law involving the motion picture production tax credit (sometimes called the film tax credit). Click [here](#) to view it. The final regulation



**Film Tax Credit:** *David C. Morganelli, a partner with the law firm of Partridge Snow & Hahn LLP who chairs the Rhode Island Society of Certified Public Accountants' Federal & State Taxation Committee, testified at a recent Division of Taxation regulatory hearing.*



**Arts District:** *Randall Rosenbaum, executive director of the Rhode Island State Council on the Arts, briefs the news media after testifying at a recent Division of Taxation regulatory hearing.*



**Film Tax Credit:** *Steven Feinberg, executive director of the Rhode Island Film & Television Office, and Donna Dube, principal revenue agent in the Division of Taxation's Forms, Credits, and Incentives section, listened to testimony at a recent Taxation regulatory hearing.*

was filed after a public hearing in October 2013.

At the hearing, held at One Capitol Hill in Providence, a panel of state officials took testimony from lawyer David C. Morganelli, a partner with the law firm of Partridge Snow & Hahn LLP, who chairs the firm's Tax Group. He also chairs the Rhode Island Society of Certified Public Accountants' Federal & State Taxation Committee.

### A look ahead

The Division of Taxation is working on regulations involving tax preparer penalties; the musical and theatrical production tax credit; the ISO certification credit (which is no longer available), and other matters.



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

**Q: Is there any guidance yet on the statewide arts district? Or is it the exact same regulation, just expanded for the entire state?**

A: There's a brand new regulation to provide guidance to artists and others about the new law.

We posted the regulation on November 6, 2013. It took effect December 1, 2013. Please click [here](#) to read a copy.



**Q: In December, my client received in the mail a retail sales permit renewal application for EFT filers. The cost is \$10. My client says that this is in addition to the regular annual renewal fee for sales tax permits. Is that true?**

A: No. Those who file on paper and those who file electronically pay the same flat \$10 fee to renew for the year.

A renewal reminder is included in the coupon booklet of a paper filer. But electronic filers do not receive coupon booklets, so we send them a letter, typically in December, which serves as a renewal reminder.

**Q: Does Rhode Island have a natural gas severance tax?**

A: No. A severance tax typically applies to the extraction of oil and natural gas. In general, such taxes are levied mainly by states in the west and southwest. New England states typically do not have such taxes.

Altogether, at least 36 states impose some sort of severance tax,

according to a survey last year by the National Conference of State Legislatures. The survey found that 31 states specifically levy taxes on the extraction of oil and gas.

(The term "severance tax" can have different meanings. Also, other types of taxes may function like severance taxes. For instance, some states apply taxes to the extraction of coal or to the production of minerals through mining. Some states have broadly defined taxes on natural resources.)

**Q: For an artist with a valid Rhode Island sales tax permit who has been issued a Certificate of Exemption – what do you do about the annual sales tax**

**reconciliation form that's due January 31, 2014?**

A: Under "gross sales" on the form, include all your sales for 2013. But under the "deductions" category, enter on the "other" line the sales that you made in 2013 that qualified for the sales tax exemption.

**Q: We plan to e-file our client's Rhode Island corporate income tax return on Form RI-1120C this season, but our software provider won't let us attach supporting documentation. Can we send you the supporting documentation by mail? If so, do you have a transmittal form we can use?**

A: Simply e-file the return, then send us by mail the supporting documentation – along with a cover letter of explanation. We don't have a separate transmittal form; the cover letter is fine, but please make sure that the letter includes all the necessary information – such as the taxpayer's name, address, and taxpayer ID, the tax type involved, and the type of return for which the attachments are intended. Also include detailed contact information.

**Q: Can you please tell me if there is a gift tax in Rhode Island? I do not believe that there is a stand-alone gift tax, but I am wondering if gifts are added to the taxable estate when determining estate tax.**

**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.

A: Rhode Island does not have a gift tax. However, in general, Rhode Island determines the value of the gross estate under the same guidelines that the Internal Revenue Service uses.

For Rhode Island purposes, gifts that the decedent completed during his or her lifetime are not included in the gross estate.

But gifts can play a role for Rhode Island estate tax purposes.

*(Please turn to page 17)*



**Practitioners' Corner:****QUESTIONS AND ANSWERS ABOUT STATE TAXES** (CONTINUED FROM PAGE 16)

For instance:

♦ Any federal gift tax paid in the three years prior to death is included in the value of the gross estate for Rhode Island purposes. (The tax itself is added back, but not the value of the asset transferred.)

♦ Certain transfers made during the decedent's lifetime – such as transfers that are revocable, that take effect at death, or that retain a life estate in property, to name a few instances – are added back into the value of the gross estate for Rhode Island purposes. (See Internal Revenue Code §§ 2035, 2036, 2037, 2038, and 2042.)

**Q: A tax associate of mine was telling me about a friend of hers that received an e-mail from the State of Rhode Island regarding the taxation of TDI and its handling similar to unemployment benefits. Is there any such e-mail that refers to this? I checked the ones I have and couldn't find anything.**

A: Without seeing a copy of the e-mail, we cannot comment. But other readers may be wondering about the broader issue regarding the treatment of taxes paid to – and benefits received from – Rhode Island's temporary disability insurance (TDI) program. So here it is in a nutshell:

In general, TDI taxes are deductible on your federal income tax return if you make a

separate list of all your deductions on Schedule A of your U.S. Form 1040 – in other words, if you itemize.

TDI taxes are not deductible for Rhode Island personal income tax purposes because Rhode Island allows only a standard deduction, not itemized deductions.

TDI tax is not an income tax withholding for purposes of your Rhode Island return, so don't include it on Schedule W and don't include it on the Form RI-1040 resident or nonresident return as a withholding payment or other payment.

If you file returns with other jurisdictions, check with them regarding their treatment of TDI taxes. (Massachusetts, for example, generally says you can count TDI tax for purposes of claiming a credit for taxes paid to other jurisdictions. For the Massachusetts directive on the topic, click [here](#).)

TDI benefits are not taxable income at either the federal or Rhode Island level.

**Q: We're an out-of-state LLC. We would like to register for a sales tax ID for Rhode Island so we can start charging our customers in Rhode Island sales tax, but I couldn't find a**

**form on your website. Can you lead me towards the right form to fill out?**

A: You may use our interactive online service to register your businesses and pay associated registration fees with your credit card.

Here is the address:

[https://  
www.ri.gov/  
taxation/BAR/](https://www.ri.gov/taxation/BAR/)

**Q: The Division of Taxation's "Summary of Legislative Changes" says**

**that the domestic production activities deduction is no longer available to corporations. What about individuals and other entities?**

A: You're talking about the federal deduction available under Internal Revenue Code § 199, also known as the domestic production activities deduction, the production deduction, or DPAD.

A Rhode Island law, enacted in July 2013, generally disallows the deduction for Rhode Island tax purposes -- for tax years beginning on or after January 1, 2014.

The law says that all corporations doing business in the state of Rhode Island shall add back into their taxable income any amount deducted under the federal "domestic production deduction" also known as section 199 of the federal Internal Revenue Code. State

**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)

tax forms shall be changed if needed in order to comply with this section.

How will that apply to your clients? Here's our preliminary view:

♦ Businesses organized 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.

♦ For an individual claiming the DPAD (as an above-the-line deduction on the U.S. Form 1040 – perhaps from work related to a Schedule C business), the deduction would continue to be allowed at the Rhode Island level.

(Please turn to page 18)



**Practitioners' Corner:****QUESTIONS AND ANSWERS ABOUT STATE TAXES** (CONTINUED FROM PAGE 17)

◆ The DPAD would continue to be apportioned among beneficiaries/fiduciaries of trusts/estates for Rhode Island purposes.

◆ A partner/owner/shareholder of a pass-through – such as an LLP or LLC (not treated as a corporation for Rhode Island purposes) – would figure the DPAD at the partner/owner/shareholder level. So for them, the deduction would continue to be allowed at the Rhode Island level.

What about S corporations? S corporations are corporations that elect to pass corporate income, losses, deductions, and credits through to their shareholders for federal tax purposes. S corp shareholders report the flow-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates. IRC § 199 (d) clearly indicates that the deduction is to be calculated at the shareholder level for federal tax purposes. We plan to follow federal law in this regard. That is because we have no statutory authority to require an S corporation shareholder to increase Rhode Island taxable income by the amount of the IRC § 199 deduction.

Keep in mind that this is only a preliminary view. We'll continue to study this issue, and we reserve the right to issue guidance later on.

**Q: Could you or someone on your staff direct me to a website that has the complete personal income laws and regulations? I am particularly interested in the changes made in 2011 (I believe) that eliminated itemized deductions and instituted the standard deduction. I have tried to access these items but cannot find a compilation of the personal income laws as one would find with the Internal Revenue Code.**

A: The bulk of federal tax laws are codified under a single title: 26:

<http://www.law.cornell.edu/uscode/text/26>

The bulk of Rhode Island state tax laws are also codified under a single title, 44:

<http://webserver.rilin.state.ri.us/Statutes/TITLE44/INDEX.HTM>

Most of the Rhode Island laws governing the personal income tax are under Title 44, Chapter 30:

<http://webserver.rilin.state.ri.us/Statutes/TITLE44/44-30/INDEX.HTM>

Personal income tax regulations are grouped together on our website:

<http://www.tax.ri.gov/regulations/other/>

A front-page article in one of our recent newsletters provided a helpful summary of the changes you mention.

Click [here](#) to view it.

The changes you mentioned were enacted in June 2010, to take effect for 2011 and later tax years. (See [RIGL § 44-30-](#)

[2.6.](#)) The goal, in part, was to drop the top tax rate, which was 9.9 percent at the time, to 5.99 percent, and also make the system cleaner and easier to understand and apply. Another goal was to make the Rhode Island system more competitive with those of neighboring states. (In Massachusetts, for instance, the top rate is 12 percent. In Connecticut, it's 6.7 percent. Neither state allows much, if any, itemized deductions.)

**Q: Do food stamps and heating assistance count as household income for purposes of the property-tax relief credit on Form RI-1040H?**

A: No. Benefits from the Supplemental Nutrition Assistance Program (SNAP), often called food stamps, do not count as household income on the Form RI-1040H. Neither does heating assistance.

**UPDATE ON STREAMLINED**

The Streamlined Sales Tax Governing Board on December 19, 2013, found four states, including Rhode Island, to be out of compliance with the Streamlined Sales and Use Tax Agreement (SSUTA).

The board raised various issues regarding the four states; the only Rhode Island issue involved the structure of the tax on clothing. (Effective October 1, 2012, Rhode Island's 7 percent sales and use tax applies to articles of clothing, including footwear, priced at more than \$250 per item. Only the increment above \$250 is taxed.)

Tax Administrator David M. Sullivan noted that Rhode Island continues to be an active participant in, and a member state of, the Streamlined agreement.

The SSUTA is intended to simplify and modernize sales and use tax administration. One result of being a member of the SSUTA is that a state can generate additional revenue.





# WHERE TO FIND FREE TAX PREPARATION

## Special Notice

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

The Rhode Island Division of Taxation does not do current-year tax returns on a walk-in basis.

But many locations in Rhode Island will prepare personal income tax returns -- and property-tax relief claims on Form RI-1040H -- all at no charge for low-income or elderly taxpayers. For dates, times, addresses, and other information, please see the contact information listed at right →



RHODE ISLAND DIVISION OF TAXATION

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



You may get your Rhode Island personal income tax return ~ and your property-tax relief form ~ prepared for you at no charge. For locations and other details, contact:

- ◆ United Way of Rhode Island's helpline: 2-1-1. It's a toll-free call; just dial the three numbers: 211. Or visit [www.211ri.org](http://www.211ri.org)
- ◆ The Volunteer Income Tax Assistance (VITA) program. Many VITA sites will start preparing returns in early February. Call toll-free at 1-800-906-9887, or visit [www.irs.gov](http://www.irs.gov)
- ◆ The AARP Tax-Aide program will start preparing returns February 1. Call toll-free at 1-888-227-7669, or visit: [www.aarp.org/taxaide](http://www.aarp.org/taxaide)

*The Rhode Island Division of Taxation continues to provide some other taxpayer services on a walk-in basis, including disbursing tax forms, answering questions, and accepting payments.*

## 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)

### NEW ENGLAND TAX COMMISSIONERS



During the New England State and Local Tax Forum, which was held at the Boston Marriott Newton hotel in Newton, Mass., a unique moment occurred: Top tax officials from each of the six New England states were gathered in a single room, at a single table, to field questions from practitioners during a panel discussion. From left in photo above: Rhode Island Tax Administrator David Sullivan; John Lewandowski, director of the Audit Division for Maine Revenue Services; Mary Peterson, Vermont Commissioner of Taxes; Kevin Sullivan, Connecticut Commissioner of Revenue Services; John Beardmore, Commissioner of the New Hampshire Department of Revenue Administration; and Massachusetts Revenue Commissioner Amy Pitter.

(Photo by Kathryn H. Michaelis)



### CONTRIBUTORS

*The following Tax Division personnel provided assistance for this issue:*

Michael Canole

Daniel Clemence

Richard Coia

Philip D'Ambra

Donna Dube

Donald Englert

Susan Galvin

Sharon Garner

William Kaniecki

Meaghan Kelly

Charles Larocque

Matthew Lawlor

Leo Lebeuf

Bernard Lemos

Scott Lewis

William Lynch

Peter McVay

Linda Riordan

David Sullivan

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

Phone: 401-574-8829

Fax: 401-574-8917

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

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