

# RHODE ISLAND TAX NEWS

A NEWSLETTER FOR TAX PROFESSIONALS

APRIL/MAY/JUNE 2016

## SHORT-TERM RESIDENTIAL RENTALS

The Rhode Island Division of Taxation has been holding seminars throughout the state to spread the word about new taxes on short-term residential rentals -- and how to comply with them.

At one of the seminars, held at the Narragansett Town Hall in February, Division of Taxation officials talked about filing and payment requirements and



**Tax Seminar:** Property owners and others listen to Rhode Island Division of Taxation officials at a seminar at Narragansett Town Hall in February. The seminar focused on taxes on short-term residential rentals.

other issues with more than 100 property owners, real estate agents, and others.

Legislation enacted in 2015 extended the sales and hotel taxes to short-term residential rentals, including

the short-term rental of beach cottages, vacation homes, and rooms.

The new law took effect in 2015.

The taxes did not apply for those who had entered into

a rental contract on or before June 30, 2015. However, that special provision applied only for occupancy in 2015.

*(Please turn to page 2)*

## TAX BREAK INVOLVING SOCIAL SECURITY

If you must pay federal income tax on a portion of your Social Security benefits, you may be eligible for a special break on your Rhode Island personal income tax return for 2016.

The "break" is in the form of a modification, which

reduces the amount of your federal adjusted gross income (AGI) for Rhode Island purposes.

It is important to keep in mind that the modification applies to tax years beginning on or after January 1, 2016.

As a result, it is not something that affects returns filed this calendar year, covering tax year 2015. Instead, it will arise during the filing season that starts in January 2017.

*(Please turn to page 4)*

## FILING DEADLINE IS APRIL 18, 2016

April 18, 2016, is the deadline for filing Rhode Island resident and nonresident personal income tax returns. Among those for whom April 18 is also the deadline:

- property-tax relief claims on Form RI-1040H;
- Residential lead abatement credit claims on Form RI-6238; and
- First quarterly estimated payment for 2016 of Rhode Island personal income tax.

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**Overview:** *Division of Taxation officials provided an overview of taxes on short-term residential rentals in February (see above) at Narragansett Town Hall. The seminar was for property owners, real estate agents, tax professionals, and others.*

## SHORT-TERM RESIDENTIAL RENTALS (CONTINUED FROM PAGE 1)

As a result, many owners of rental properties, especially summer and vacation rentals, will be subject to the taxes starting this year.

At the seminars, the Division of Taxation explains to those attending what the taxes are and how the taxes apply -- not only for those who were subject to the tax in 2015, but also for those who will be subject to the tax for the first time, in 2016.

Agency officials also review the requirement to register with the Division, obtain a sales permit, and renew the permit.

In addition, agency officials go over the various forms that must be filed, the filing deadlines, required payments, and payment deadlines.

So far, the Division of Taxation has held six seminars throughout the state -- some in 2015, some in 2016 -- to

provide property owners and others with guidance about the taxes on short-term rentals and to answer their questions.

In 2016, the seminar in Narragansett was organized by the Division of Taxation and the Rhode Island Association of Realtors. The seminar in April in Newport was organized by the Division of Taxation with the assistance of Discover Newport and Rhode Island Association of Realtors.

### More resources

*This edition of Rhode Island Tax News provides additional resources about taxes on short-term residential rentals. Please see page 3 for details.*

## SHORT-TERM RESIDENTIAL RENTALS -- AT A GLANCE

**A**re you renting out a room, an apartment, a condo, a beach cottage, or other such residential dwelling for a short term (30 days or less)? If so, you are subject to Rhode Island's taxes on short-term residential rentals. What steps must you take? On this page is an at-a-glance guide.

If you rent out an entire house, an entire cottage, an entire condo, an entire apartment, or other such accommodation, and the rental period is for 30 days or less, collect from your tenants the 7% sales tax and the 1% hotel tax and send all of the tax revenue to the Rhode Island Division of Taxation.

But if you rent out just a room -- whether it's in an apartment, condo, house, or other such residential accommodation -- and the rental period is for 30 days or less, collect from your tenants the 7% sales tax, the 1% local hotel tax, and the 5% statewide hotel tax -- and send all of the tax revenue to the Rhode Island Division of Taxation.

*In either case, take the following steps:*



**1** Register with the Rhode Island Division of Taxation by completing and filing the Business Application and Registration form. This will give you an official sales tax permit. Send in the completed form with a check or money order for \$10. (Registration cannot be done online at this time.) For a paper form, use the following link:

[http://www.tax.ri.gov/forms/2015/Excise/Sales/TX\\_BAR\\_07202015.pdf](http://www.tax.ri.gov/forms/2015/Excise/Sales/TX_BAR_07202015.pdf)

To see which parts of the form you must fill out, use the following link:

<http://www.tax.ri.gov/Tax%20Website/TAX/notice/Revised%20sample%20BAR%2007-23-15.pdf>



**2** To send in the taxes that you collect, you must use two separate forms and write two separate checks. For the sales tax, use the form at the following link:

<http://www.tax.ri.gov/forms/2011/Excise/SalesUse/Sales%20Tax%20Monthly%20Multi.pdf>

For the hotel tax, use the form at the following link:

<http://www.tax.ri.gov/forms/2015/Excise/Sales/Vacation%20Rentals%2007202015.pdf>



**3** Once you have sent in the Business Application and Registration form mentioned in Step 1 above, with your check for \$10, you don't have to fill it out again. The Division of Taxation will automatically mail you a renewal form each year.

Don't forget to read our frequently asked questions (FAQs), which provide details on how the taxes work and what steps to take. The FAQs are available through the following link:

<http://www.tax.ri.gov/Tax%20Website/TAX/notice/Short-term%20residential%20rentals%20--%20FAQs%20--%2007-24-15%20revised.pdf>

*If you still have questions, call our Excise Tax section, at (401) 574-8955 from 8:30 a.m. to 3:30 p.m. business days.*

# TAX BREAK INVOLVES SOCIAL SECURITY (CONTINUED FROM PAGE 1)

Still, it is something that could affect your estimated tax payments during 2016 – and could affect the return you file a year from now, covering tax year 2016.

So it’s helpful to consider the issue now, for tax-planning purposes. The tax break was approved by the General Assembly and signed into law by Governor Gina M. Raimondo on June 30, 2015.

### How it works

The computation of Rhode Island’s personal income tax begins with federal AGI. Modifications to federal AGI for Rhode Island purposes may result in an increase or decrease in federal AGI.

For tax years beginning on or after January 1, 2016, a modification is allowed for certain beneficiaries of the federal Social Security program. To qualify, you must clear three main hurdles, which are summarized below and are listed in Table 1 on this page:

- ◆ Your Social Security benefits must be taxed at the federal level;
- ◆ You must be at “full retirement age” as defined by the Social Security Administration (see Table 2); and
- ◆ Your federal adjusted gross income must be below a certain amount (see Table 3).

If you clear all the hurdles, the amount of your income

taxed by Rhode Island will be reduced by the amount of your Social Security benefits taxed at the federal level, saving you money.

For example, suppose that Maria, 68, is single, retired, and collecting Social Security benefits. Her federal AGI for 2016 is \$50,000, which includes \$10,000 of taxable Social Security benefits.

Ordinarily, that entire \$50,000 would be subject to Rhode Island personal income tax. However, because she qualifies for the new modification, only \$40,000 of her federal AGI will end up being taxed by Rhode Island.

Therefore, assuming she is in the 3.75 percent Rhode Island tax bracket, she could save \$375 in Rhode Island personal income tax in this example. *(The example does not take into account other factors that could affect her Rhode Island tax, such as other modifications that could decrease or increase income; the Rhode Island standard deduction; personal exemptions; tax credits; and use tax.)*

In the case of a married couple filing a joint return, the “full retirement age” test applies to each spouse. If only one spouse is of full retirement age, the modification will include only that spouse’s portion of taxable Social Security benefits. The Division of Taxation will revise its forms and instructions accordingly.

**TABLE 1: Social Security tax break for tax year 2016**

You may be eligible for the Rhode Island tax break on Social Security benefits if you meet all of the following conditions:

- You (and/or your spouse, if married and filing jointly) receive any of the following types of Social Security benefits: old-age benefits (sometimes called retirement benefits); wife’s benefits; husband’s benefits; widow’s benefits; or widower’s benefits;
- Your Social Security benefits are taxed at the federal level;
- You have reached full retirement age as defined by Social Security Administration regulation (see Table 2); and
- Your federal AGI falls below a certain threshold (see Table 3).

**TABLE 2: Full retirement age**

If you were born in:	Your full retirement age is:
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

Note: If you were born on January 1 of any year, refer to previous year in table. For married couple filing joint return, “full retirement age” test applies to each spouse. If only one spouse has reached full retirement age, break applies only to that spouse’s taxable Social Security benefits.

**TABLE 3: Income threshold**

You file your return as:	Your federal AGI is less than:
▪ single, head of household, or married filing separately	Less than \$80,000
▪ married filing jointly, or qualifying widow, or qualifying widower	Less than \$100,000

Note: First column refers to filing status on your Rhode Island personal income tax return for tax year 2016. For a married couple filing a joint Rhode Island return, income threshold applies to couple’s combined federal adjusted gross income (AGI). Income thresholds will be adjusted annually for inflation. Filing status on your Rhode Island return must be the same as filing status on your federal return.

## LETTERS OF GOOD STANDING AND 'LEAN' INITIATIVE

The Rhode Island Division of Taxation is using Governor Gina M. Raimondo's "Lean Government Initiative" to make the agency's processing of letters of good standing more efficient and effective.

Governor Raimondo last year launched the initiative to foster innovation and promote a culture of continuous improvement across state agencies.

As part of the initiative, state agencies were asked to examine their business practices and identify areas for process improvement.

Rhode Island business leaders were also invited to share their expertise and serve as mentors for agency heads.

"Rhode Islanders deserve a government that moves at the speed of business," Governor Raimondo said in a statement in March, marking the first anniversary of the initiative.

"We are making good progress in rethinking the way we work and in engaging the private sector to assist us in sharpening our business practices. Our focus continues to be on problem solving, implementing innovative solutions, and improving agency performance and outcomes," she said.

A letter of good standing is an official document issued by the Division of Taxation indicating that the applicant is current on all state tax filings and payments.



Photo by Andy Manca, Lean Government Initiative Coordinator

**Presentation:** A delegation from the Rhode Island Division of Taxation, led by Acting Tax Administrator Neena S. Savage, made a presentation in March to business and government officials about the agency's use of Governor Gina M. Raimondo's "Lean Government Initiative," which is helping the agency process applications for letters of good standing more efficiently and effectively. The event was held at the Rhode Island Foundation in Providence.

The Division of Taxation receives thousands of applications each year for letters of good standing. Often, a letter of good standing is required by lenders or other businesses. Sometimes, a letter of good standing is required by a state statute or regulation.

Whatever the case, the processing of an application for a letter of good standing from the Division of Taxation can take time -- and backlogs had emerged.

So the agency employed the Lean Government Initiative

to carefully scrutinize each step involved in the process and how it might be improved. The agency invited a number of outside stakeholders to participate.

The result was a number of recommendations to streamline the steps involved in processing applications for letters of good standing, helping to reduce wait times and backlogs.

The agency has already begun implementing the procedures. The overall process will see further improvement once the Division's new agency-wide

computer system is fully implemented within the next year or so.

Overall, more than 1,600 State employees have received "Lean" training to date, and nearly 40 "Lean" ambassadors have been identified across state agencies. The Lean Government Initiative is based on a proven methodology used by the manufacturing industry to eliminate waste, reduce wait and processing times, and realize greater efficiency and cost reductions.

## RHODE ISLAND FREE FILE KICK-OFF

U.S. Sen. Jack Reed, U.S. Rep. Jim Langevin, Rhode Island Attorney General Peter Kilmartin, and Rhode Island General Treasurer Seth Magaziner were among the featured speakers at a meeting in Providence in March to highlight the benefits of the Rhode Island Free File program.

The Rhode Island Free File program generally allows people with adjusted gross income of \$62,000 or less to use a participating tax preparation software program to prepare and file their federal and Rhode Island personal income tax returns online at no charge.

(A special page on the Rhode Island Division of Taxation’s website lists the participating software programs and includes a summary of each.)

The meeting was held at Cranston Public Library, 140

Sockanosset Cross Road, Cranston.

“The free software provided through the program does the hard work for you: helping people to not only complete their own tax return, but also to find and take advantage of every credit and deduction for which they are eligible,” Langevin said.

Michael F. Canole, chief of examinations at the Rhode Island Division of Taxation, said at the event, “By using Rhode Island Free File, many low-income and middle-income taxpayers can get their federal and Rhode Island earned income credits more quickly, and get them by direct deposit, assuming they are eligible. They can also get their property-tax relief credit more quickly, by direct deposit, assuming



Photo by Rep. Robert B. Lancia

**Presentation:** Michael F. Canole, chief of examinations at the Rhode Island Division of Taxation, took part in the Free File program kick-off event in Cranston in March. (In photo below, federal, state, and local officials joined private-sector representatives at the event.)

they are eligible.” Canole said that last year, 9,894 Free File returns were filed for Rhode Island.

“Free File Rhode Island harnesses the power of the Internet to help thousands of Rhode Islanders prepare and file their federal and Rhode Island tax returns online at no charge,” Canole said. That, in turn, lowers the cost of processing for the Rhode Island Division of Taxation. “It truly is a win-win,” he said.

Rhode Island is one of about 20 states that have formed state Free File programs. Free File is a public-private partnership between the Internal Revenue Service and tax preparation software companies.



## 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.*

#### Tax credit

Legislation enacted in 2010 established that nine tax credits could be applied against the Rhode Island personal income tax for tax years beginning on or after January 1, 2011.

Not on the list are credits under the Historic Homeownership Assistance Act, Rhode Island General Laws (RIGL) Chapter 44-33.1.

In March 2014, a taxpayer filed amended Rhode Island resident personal income tax returns for tax years 2011 and 2012, claiming the historic homeownership credits against his tax for those years. The Division of Taxation disallowed his claim for the credits and a hearing was held.

The taxpayer argued, in part, that the change in the law in 2010 impaired his contractual rights in violation of the United States and Rhode Island constitutions. The Division argued, in part, that, as a result of the change in the law in 2010, the credits were no longer allowed, and that Rhode Island statutes are presumed valid and constitutional. On February 2, 2016,



*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.*

Hearing Officer Catherine R. Warren, citing RIGL § 44-30-2.6, concluded that historic homeownership tax credits cannot be used to offset personal income tax liability on or after January 1, 2011. On February 11, 2016, Acting Tax Administrator Neena S. Savage adopted Warren's decision and recommendation.

-- Final Decision and Order  
No. 2016-01

#### Tobacco products

At issue is whether a taxpayer owes an assessment involving tax on "other tobacco products". The term "other tobacco

products" -- also known as "OTP" -- typically refers to tobacco products other than cigarettes. The category includes smoking tobacco, chewing tobacco, hookah and other items.

In this case, the Division of Taxation's Special Investigation Unit asserted, in part, that the taxpayer delivered OTP in Rhode Island without the statutory required license, and that the taxpayer had not paid tax on OTP that had been seized in July 2015. The taxpayer asserted, in part, that he was unaware of the licensing requirement.

Warren on February 8, 2016, found that the tax owed was properly assessed by the Tax Division, but recommended reduced penalties, noting in part that it was the taxpayer's first offense. On February 12, 2016, Savage adopted Warren's decision and recommendation.

-- Final Decision and Order  
No. 2016-02

#### Refund case

A taxpayer filed a 2012 Rhode Island personal income tax return in late April of 2015. The taxpayer sought a refund. The Division of Taxation denied the request, finding that the refund request was filed too late.

*(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)

The agency cited the refund provisions set forth under Rhode Island General Laws § 44-30-87.

The statute provides two different time periods within which a refund is allowed.

In essence, a refund claim 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 these periods expires the later. (Please see table at right.)

If the refund claim is made within the three-year period, the amount of the credit cannot exceed the amount of tax paid within that three-year period.

If the claim is made within the two-year period, the amount of refund cannot exceed the portion of tax paid during the two years preceding the filing of the claim.

In this case, the taxpayer's 2012 tax was deemed paid April 15, 2013. The taxpayer's request failed the two-year test because he filed his 2012 return in late April 2015. In other words, late April of 2015 was past the two-year period from the date the tax was deemed paid that is allowed for requesting a refund.



What about the three-year test? The taxpayer did file within the three-year period, but the statute also says that the amount of the refund (credit) cannot exceed the amount of tax paid within that three-year period. In this case, the taxpayer had not paid any tax from late April of

2015 to the time of the administrative hearing.

On March 11, 2016, Warren determined that the taxpayer was not entitled to the claimed refund and that the Division properly denied the claim. On March 21, 2016, Savage adopted her decision and recommendation.

-- Final Decision and Order  
No. 2016-03

**Refund case**

A taxpayer filed a 2012

Rhode Island personal income tax return on April 29, 2015, seeking a refund for the 2012 tax year. The Division denied the request, saying it was out of time. On March 17, 2016, Warren determined that the taxpayer was not entitled to the claimed refund and that the Division properly denied the claim. On March 21, 2016, Savage adopted her decision and recommendation.

-- Final Decision and Order  
No. 2016-04

**Tax relief**

At issue is whether the taxpayer was eligible for the statewide property-tax relief credit under Rhode Island General Laws § 44-33-1 *et seq.*

The taxpayer requested the credit for tax year 2014. Under the statute, one's eligibility for the credit depends on, among other things,

one's household income. (The annual household income limit is \$30,000.)

The Division asked the taxpayer to provide proof of household income for that year. The taxpayer did not provide the proof. As a result, the Division denied the credit.

On March 9, 2016, Warren found that the taxpayer was not eligible for the credit and that the Division properly denied the taxpayer's claim for the credit. On March 21, 2016, Savage adopted her decision and recommendation.

-- Final Decision and Order  
No. 2016-05

**Refund claim**

Was the taxpayer eligible for a Rhode Island personal income tax refund for tax year 2011?

(Please turn to page 9)

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.		
Three-year rule	⇒	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.
Two-year rule	⇒	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.

# RHODE ISLAND POSTS STATISTICS OF INCOME

The Division of Taxation has posted on its website two sets of statistics of income (SOI) reports (see screenshot at right).

One set is for Rhode Island’s personal income tax, another for the state corporate income tax. Both cover tax year 2014.

The reports, posted in March 2016, are drawn on figures contained in tax returns filed with the Division of Taxation.

The reports do not disclose confidential taxpayer information; they provide aggregate data for a given tax type.

For example, one of the SOI reports for the Rhode Island personal income tax shows how many resident returns were filed for tax year 2014, how much adjusted gross income that taxpayers reported in the aggregate, and how much in credits they claimed. The report also breaks down the figures within various income groupings.

The set of corporate SOI reports shows the total num-



ber of returns for tax year 2014, how much businesses reported in federal taxable income, how much in deductions were claimed, and how much in credits were claimed.

The corporate SOI set also shows how many business entities paid the corporate minimum tax (which, for tax year 2014, was \$500).



**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.*

## Legal Corner

### RECENT STATE TAX CASES IN SUMMARY (CONTINUED FROM PAGE 8)

She filed her 2011 Rhode Island personal income tax return on April 15, 2015. The Division determined that under the rules (which are summarized on the previous page), the taxpayer was not eligible because the return was filed too late:

◆ The taxpayer’s 2011 tax was deemed paid April 17, 2012, but the refund claim was filed with the 2011 return on April 15, 2015 – well beyond the two-year limit.



◆ The taxpayer was within the three-year period to claim a refund, but the taxpayer had not paid any tax from April 15, 2015, to the present.

On March 11, 2016, Warren determined that the taxpayer was not entitled to

the claimed refund and that the Division properly denied the taxpayer’s refund claim. On March 21, 2016, Savage adopted Warren’s decision and recommendation.

-- Final Decision and Order

No. 2016-06

## RHODE ISLAND TAX NEWS ROUNDUP

*Following are some Tax Division developments that have occurred since the last quarterly newsletter was posted:*

### Combined reporting

For purposes of Rhode Island's corporate income tax, a corporation formerly filed its return as a single entity – a separate entity – taking into account its own income, no matter if the corporation was part of a broader group of corporations, under common ownership, engaged in a unitary business.

However, legislation enacted in 2014 established mandatory unitary combined reporting. As a result, for tax years beginning on or after January 1, 2015, an entity treated as a C corporation for federal income tax purposes must report on its Rhode Island return not only its own income, but also the combined income of the other corporations, or affiliates, that are part of a combined group under common ownership and part of a unitary business.

To provide guidance, the Division of Taxation recently posted on its website, as final, a regulation on combined reporting.

In addition, the agency recently posted on its website some frequently asked questions (FAQs) regarding combined reporting. The FAQs focus on practical is-

suues, such as what forms and schedules to use, the new seven-month extension rule, e-filing, estimated payments, the minimum tax, and other topics.

In addition, the Division recently posted on its website Schedule CRS. Entities that are subject to combined reporting will file Schedule CRS along with the corporate income tax return on Form RI-1120C.

The Division of Taxation's website is:  
[www.tax.ri.gov](http://www.tax.ri.gov)

### Form RI-1120C

Any entity that files its Form RI-1120C Rhode Island corporate income tax return on extension this year is eligible for a seven-month extension, whether combined reporting is or is not involved.

Thus, for an entity which is treated as a C corporation for federal income tax purposes and which uses a calendar year, the original due date this year was March 15, 2016, and the extended due date this year will be October 17, 2016. It is an extension of the time to file, not of the time to pay.

### Director

The Rhode Island Senate recently confirmed Robert S. Hull as director of the



Photo by Paul Grimaldi, Dept. of Revenue

**Radio:** *Marlen Bautista, chief of the Rhode Island Division of Taxation's Corporate Tax section, was recently interviewed on Latino Public Radio at its Cranston studio. She discussed the Rhode Island personal income tax and tax-filing season. Also pictured above is Dr. Pablo Rodriguez.*

Rhode Island Department of Revenue.

A financial industry veteran, Hull has managed technology, regulatory, financial and strategic planning efforts for large-scale business enterprises during a nearly 30-year career in the private sector.

He comes to state government from Providence Equity Partners, where he served as senior advisor, managing director and chief financial officer.

Hull succeeds Marilyn Shannon McConaghy, who served as the acting director of the revenue department. McConaghy will remain in her role at the department as administrative and legal support services administrator.

As director of the Department of Revenue, Hull oversees the department's

four state divisions: Lottery, Motor Vehicles, Municipal Finance, and Taxation, as well as the Office of Revenue Analysis.

He manages a department of more than 500 employees and a more than \$478 million budget for this fiscal year.

Hull holds a bachelor's degree from the University of Virginia and a master's degree in business administration from Harvard Business School. He is a former member of the Board of Directors of the Providence Foundation.

### Wavemaker credit

The Rhode Island Division of Taxation has posted, as final, its regulation on tax credits under the new Wavemaker Fellowship Program.

*(Please turn to page 11)*

## RHODE ISLAND TAX NEWS ROUNDUP (CONTINUED FROM PAGE 10)

The program, which was proposed by Governor Gina M. Raimondo and approved by the General Assembly in 2015, is intended to provide an incentive to keep educated individuals in the state.

The tax credits will help qualifying applicants, who have graduated from college and who meet program rules, to pay their higher education loans. The credits can be applied against the Rhode Island personal income tax.

Successful applicants must demonstrate a 12-month service period that begins upon receipt of the award.

Thus, the credits will not apply for filing Rhode Island personal income tax returns for tax year 2015.

Still, tax professionals will want to be familiar with the program for tax-planning purposes.

The Division of Taxation regulation mirrors one posted by the Rhode Island Commerce Corporation and took effect March 14, 2016.

For more information about the program, see the Commerce Corporation website: <http://www.commerceri.com>

### Seminar in Newport

The Division of Taxation on April 1, 2016, held a statewide seminar in Newport to outline the new taxes on short-term residential rentals.

The event, which was held



**Seminar:** Donald Englert (at center above), chief of the Rhode Island Division of Taxation's Excise Tax section, discussed the taxation of short-term residential rentals during a seminar in April at the Community College of Rhode Island's Newport County campus. He met with attendees afterward to answer their questions.

at the Community College of Rhode Island's Newport County Campus, was also intended to answer questions from landlords, real estate agents, tax professionals, and others.

It was the sixth such seminar that the Division of Taxation has held since June 2015. (The agency has held one session in New Shoreham, one in Cranston, two in Narragansett, and two in Newport.)

Legislation approved by the General Assembly and signed into law by Governor Raimondo on June 30, 2015, extended the sales and hotel taxes to short-term residential rentals under certain circumstances. The Division on February 26, 2016, held a semi-

nar in Narragansett regarding short-term residential rentals. That seminar is available online, on the Narragansett Town Council's channel on YouTube.

### Scam alert

The Internal Revenue Service and the Rhode Island Division of Taxation caution taxpayers that scammers prey on hard-working taxpayers by impersonating government tax officials with fake phone calls and emails.

Taxpayers should know the telltale signs of a scam and tips to protect themselves from a variety of phone scams and phishing emails.

The scam artists frequently masquerade as being from the IRS, a tax company, and sometimes even a state revenue

department or a state division of taxation. By email, they try enticing people to click on links in official-looking messages containing questions related to their "tax refund." Report these emails to: [phishing@irs.gov](mailto:phishing@irs.gov)

By phone, many scammers use threats to intimidate and bully people into paying a "tax bill." They may even threaten to arrest or to deport the victim, or to revoke the victim's driver's license, if they don't get the money. It's more important than ever to be cautious with providing personal or financial information. To learn more, see this website:

<http://1.usa.gov/1X3au1J>

(Please turn to page 12)

## RHODE ISLAND TAX NEWS ROUNDUP (CONTINUED FROM PAGE 11)

### Scholarship

The Credit for Contributions to Scholarship Organizations program will begin on July 1.

The credit is for approved business entities that make contributions to approved scholarship organizations.

Although the contribution must be made by a business entity, the credit can be used against a variety of taxes -- and can be used by owners, shareholders, or partners of pass-through entities.

Applications are approved on a first-come, first-served basis until the credit cap of \$1.5 million per fiscal year is met. A list of qualified scholarship organizations and other helpful information is available on the program's web page. The application for the fiscal year that starts July 1, 2016, will be available in late May or early June.

For more information, contact Donna Dube at the Division of Taxation at (401) 574-8903 or e-mail: [Donna.Dube@tax.ri.gov](mailto:Donna.Dube@tax.ri.gov)



**Seminar:** *The Rhode Island Division of Taxation, in conjunction with the Rhode Island Association of Realtors, offered a seminar on the taxation of short-term residential rentals. The event was held at the Narragansett Town Hall in February. (See also photo at bottom of page.)*

### Voluntary

New for 2016 and later years, Rhode Island is offering employers the opportunity to reduce their unemployment insurance tax by making a voluntary contribution to their unemployment insurance account.

The contribution will be

applied as an additional credit for the qualifying year, potentially increasing the account reserve percentage and decreasing the experience rate for the calendar year.

Every December, the Rhode Island Division of Taxation's Employer Tax section will notify employers of their experience tax rate for the coming year.

Included in the yearly mailing will be the Voluntary Contribution Application. Each application is due 30 days after the indicated mailing date of the Experience Rate Tax notice or prior to the expiration date, which is 120 days from the first day of the calendar year (April 30th - in cases where an employer

is newly registered or re-rated), whichever comes first. All employers will be notified in writing with a revised rate notice no later than 30 days after the receipt of the application and payment. Only one voluntary contribution can be made per qualifying year.

*More information is on the Division of Taxation's Employer Tax website. If you have questions regarding your company's eligibility, questions can be directed to Employer Tax at (401) 574-8767.*



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

**Q: Could you remind me about the rule regarding whether e-filing is allowed for Rhode Island personal income tax extensions?**

A: Rhode Island does not allow for electronic filing of personal income tax extensions. So if you are planning to file on extension this year (by the October 17, 2016, extended due date), file a paper extension request on Form RI-4868 by the original due date of April 18, 2016.

**Q: We have a client that worked in Puerto Rico, lives in Rhode Island, and paid Puerto Rico taxes. Is this an offset to Rhode Island taxes similar to taxes paid to other states?**

A: In the computation of Rhode Island personal income tax, the law provides for a credit "for income tax paid to other states" – and Puerto Rico is not a state. As a result, the credit does not apply in your client's case.

**Q: I have a couple of questions for you in regards to single member LLCs disregarded for fed-**

**eral income tax purposes. Since 2012, I see that "SMLLC" has been added to Form RI-1065, and that the annual fee of \$500 has to be paid for this type of entity. What about before 2012?**

**Were SMLLCs taxed? And if so, what form was used?**

A: Like other limited liability companies (LLCs),

single-member LLCs (SMLLCs) are subject in Rhode Island to an annual filing requirement and annual filing charge, or filing fee.

Rhode Island General Laws § 7-16-67, "Filing of returns with the tax administrator – Annual charge," puts it this way:

"If the limited liability company is not treated as a corporation for purposes of federal income taxation, it shall pay a fee in an amount equal to the minimum tax imposed upon a corporation under RIGL §44-11-2(e). The due date for a limited liability company that is not treated as a corporation for purposes of federal income taxation shall be on or before the fifteenth (15th) day

of the fourth (4th) month following the close of the fiscal year."

♦ For tax years 2012 and later, use Form RI-1065 (and check the "SMLLC" box).

♦ For tax years 2011 and prior, use Form RI-1120S (and check the "LLC" box).

♦ The annual charge, or annual fee, is linked directly to the annual corporate minimum tax under RIGL § 44-11-2(e). The tax was \$250, but was raised to \$500 for 2004 and later tax years. However, for tax years beginning on or after January 1, 2016, it has been reduced to \$450.

**Q: Can my client use her credit card to pay her Rhode Island personal income tax?**

A: For personal income tax, the Division plans to make a credit card payment option available soon, replacing a credit card payment option that at one time had been provided by a vendor.

But please keep the following point in mind:

In lieu of paying her personal income tax by credit card, your client should consider choosing direct debit (automatic withdrawal) from her bank or credit union.

The direct debit option must be chosen before the return is e-filed, not after.

*(Please turn to page 14)*



### 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 13)

**Q: A client of mine tried to go online to the fillable RI-1040 forms to do his children's returns. He said you cannot enter the last two digits of your Social Security number. So I went on and tried it and you can input the entire Social Security number if you do not use the dashes. Is it okay to not use the dashes?**

A: Yes. The program is set to not use dashes. So when using the fillable form online, please enter Social Security numbers without the dashes.

**Q: . Last year we had three entities that converted to limited liability companies (LLCs) and are registered in Rhode Island. Does this lead to an LLC filing requirement in addition to their corporate filings?**

A: Yes. Because corporations and LLCs are assessed taxes and fees under two different statutes, we will require returns and payments for each.

Based on the facts you provided, you will be required to file a short-period return on Form RI-1120C for each corporation and pay either the computed income tax or minimum tax for the corporation under Rhode Island General Laws § 44-11-2.

You will also be required to submit a short-period return on Form RI-1065 for each LLC and pay the annual fee as required under Rhode Island General Laws § 7-16-67. The annual fee is the same as the annual corporate minimum tax: \$500 for tax year 2015, \$450 for tax year 2016.

The same principles outlined above also apply to corporations that convert to disregarded entities.

**Q: I understand that we may no longer use the OPTins website for filings forms and making payments. My concern is the quarterly estimated surplus lines broker form. Does that still need to be completed each quarter?**

A: You may make your surplus lines quarterly estimated payments electronically directly through us by signing up on the following web page: <http://www.tax.ri.gov/notice/efmand/index.php>.

If you pay electronically, you do not have to mail in the estimated payment coupon.

If you wish to mail in the



<b>Business tax filing deadlines at a glance (calendar-year filers)</b>			
Entity	Form	Original due date	Extended due date
S corporation	RI-1120S	March 15, 2016	September 15, 2016
C corporation	RI-1120C	March 15, 2016	October 17, 2016
LLC	RI-1065	April 18, 2016	October 17, 2016
Single-member LLC	RI-1065	April 18, 2016	October 17, 2016
Partnership	RI-1065	April 18, 2016	October 17, 2016

Note: Dates shown are for 2015 tax year returns filed by entities that use calendar year.

payment, you may do so by sending in the payment with Form SLB-EST. You may find that form here: <http://www.tax.ri.gov/taxforms/otherbusiness.php>.

Either way, remember that we use your Social Security number for account identification, not your broker number. So when signing up to make estimated payments, use your Social Security number.

**Q: What's the due date of the Rhode Island 1065 form?**

A: For entities that file Form RI-1065, the return is due on or before the 15th day of the 4th month after the close of the taxable year.

*(Please turn to page 15)*



*The Rhode Island State Council on the Arts is spreading the word (see above) about Rhode Island's statewide sales tax exemption on the sale of original and limited edition works of art.*

**Practitioners' Corner****QUESTIONS AND ANSWERS ABOUT STATE TAXES** (CONTINUED FROM PAGE 14)

Thus, the filing deadline is April 18, 2016, for:

◆ Calendar-year limited liability companies (LLCs) that are taxed as pass-through entities and that file their return on Form RI-1065.

◆ Calendar-year limited partnerships, limited liability partnerships, general partnerships, and single-member LLCs that file their return on Form RI-1065.

**Q: We're an insurance company in Illinois. When we file the annual surplus lines insurance tax return, on page 2 of the form, must we list the full Social Security number of each broker, or can we just enter the last four digits for each?**

A: You must enter the full Social Security number.

We need it to match up the brokers listed on your return against the records in our system, and the match will not work with just four digits.

**Q: If I file a short-year return for a corporation that needs to be closed - 1/1/16 to 3/31/16 (on a 2015 form) - is the tax due still \$500 or is it \$450?**

A: 1.) If you file a return for tax year 2015 (short year or not), you owe \$500.

2.) If you file a return for tax year 2016 (short year or not), you owe \$450.

**Q: A relative died in 2015. She was a widow and her gross estate was around \$300,000. We need the state's lien released on the real estate. Do I only need to file Form T-77?**

A: We still need a return. Even non-taxable estates may have reason to file a Rhode Island estate tax return. One reason is to obtain discharge of the automatic statutory lien that attaches to all Rhode Island real estate that a decedent owns at death.

Which form to use? A small estate (gross estate of \$1.5 million or less for a decedent dying in 2015) files its return on Form RI-100. However, if the small estate has made an election of portability at the federal level, it must use Form RI-100A.

Also, if the gross estate exceeds \$1.5 million, file the return on Form RI-100A.

Whether you're filing Form RI-100 or Form RI-100A, file Form T-77 for each piece of Rhode Island real estate, and file it in triplicate.

Questions? Call our Estate section at (401) 574-8900 from 8:30 a.m. to 3:30 p.m. business days. Forms and instructions are available on

our website:

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

**Q: A married couple, both Rhode Island residents, are joint owners of residential rental property in Florida, a residential condominium. The couple rents it out on a short-term basis. Is that Florida rental subject to the sales and**

**hotel taxes that began applying to short-term rentals in Rhode Island starting July 1, 2015?**

A: No. Legislation enacted on June 30, 2015, expanded the sales and hotel taxes to include short-term rentals of residential property, including the rental of vacation homes and beach cottages, effective July 1, 2015. However, those taxes apply only where Rhode Island real estate is involved. Those taxes do not apply to residential rental property in other states (such as Florida).

Keep in mind, however, that many states levy their own taxes on short-term residential rentals. Depending on the jurisdiction, such taxes may be called lodging taxes, hotel/room taxes, sales taxes, transient accommodation tax, or general excise taxes.

**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

## FILING FOR REFUND OF RHODE ISLAND TDI TAX

If you worked for a single employer last year, chances are that the employer withheld the proper amount in Rhode Island temporary disability insurance (TDI) tax.

But if you worked for two or more employers last year – at the same time, or in succession – you may have overpaid in TDI tax.

That's because there's no way for one employer to know how much in TDI tax the other employer withheld.

So check for yourself: If you paid more than the maximum of \$770.40 in TDI tax last year, you paid too much and should therefore file for a refund.

Although the TDI program is generally overseen by the Rhode Island Department of Labor and Training, TDI taxes – and refunds – are handled by the Rhode Island Division of Taxation.

To claim your refund, use Form TX-16, "Claim for Refund of Temporary Disability Insurance Tax." Instructions are on the form.

Following are some points to keep in mind as you fill it out:

- ◆ TDI applies to each person, individually. So if you're married and trying to figure out if you're owed a TDI tax refund, count only the TDI tax that you yourself paid. Your spouse will have to do a separate calculation.

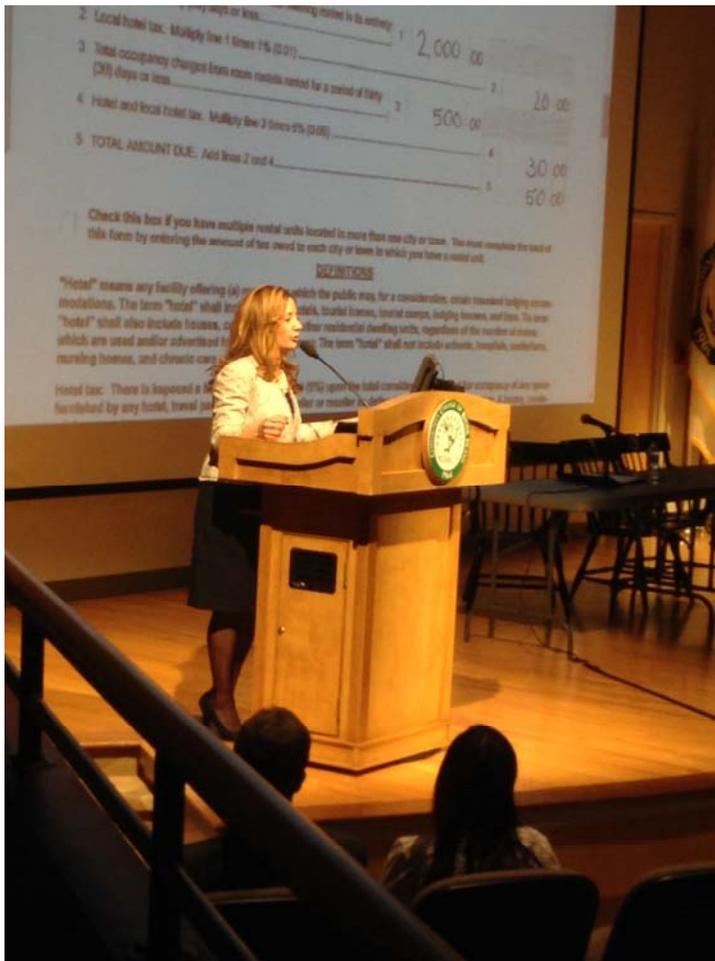
- ◆ If you're married, each spouse must file a separate form for a TDI tax refund. (Remember: TDI applies to each person, individually.)

- ◆ Claims for TDI tax refunds can be filed only on paper, not electronically. The mailing address is in the instructions. (TDI tax refunds are issued only by check, not electronically.)

- ◆ For each employer you list on the claim form, you must attach a copy of the Form W-2 wage statement you received from that employer.

- ◆ You may request TDI refunds only for 2015, 2014, and 2013. You must use a separate Form TX-16 for each year for which you claim a refund.

- ◆ For more information on TDI refunds, call (401) 574-8700 from 8:30 a.m. to 3:30 p.m. business days. (The "Where's My Refund?" online tool is only for personal income tax refunds, not for TDI refunds.)



**Seminar:** Susanna Coburn, principal revenue agent in the Rhode Island Division of Taxation's Excise Tax section, discussed the taxation of short-term residential rentals during a seminar in April at the Community College of Rhode Island's Newport County Campus.

Don't expect to receive your TDI refund immediately after you file for it. There are reasons it could be delayed.

For example, TDI refunds for 2015 can't be processed until the Tax Division has received and processed employers' tax and wage reports for late 2015.

It can take until early April, depending on the year, to start processing all those employer reports. Depending on when you file your claim for a refund, it could take up to 12 weeks until you receive your refund check.



## 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 [Susan.Galvin@tax.ri.gov](mailto:Susan.Galvin@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

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

##### Telephone

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



#### NEWSLETTER CONTRIBUTORS

*The following Division of Taxation personnel provided information or other assistance for this edition of Rhode Island Tax News:*

Marlen Bautista	Susan Galvin
Michael Canole	Theriza Iafate
Daniel Clemence	William Kaniecki
Susanna Coburn	Meaghan Kelly
Richard Coia	Matthew Lawlor
Philip D'Ambra	Leo Lebeuf
Donna Dube	Neena Savage
Donald Englert	