IMPORTANT NOTICE

2004 LEGISLATION REGARDING BUSINESS CORPORATION TAX AND BUSINESS TAX CREDITS PASSED BY GENERAL ASSEMBLY

Legislation passed increasing the minimum tax from $250.00 to $500.00 beginning with years starting 1/1/04 and thereafter in accordance with Chapter 44-11-2(e). The franchise tax has also been increased from a minimum of $250.00 to $500.00 starting with years beginning on or after 1/1/04 in accordance with Chapter 44-12-1. This is important to note since any requests for Letter of Good Standing for purposes of dissolution, withdrawal, merger or major sale of assets filed after July 31, 2004 where a short period return is required will necessitate the payment of a minimum franchise tax of $500.00 for years starting 1/1/04 and thereafter. When the actual final return is filed at a later date you may take credit for any advance payment of $500.00 that you make for Letter of Good Standing purposes.

Legislation passed reducing the amount a qualified business in an enterprise zone is allowed to take as a wage credit for years ending on or after 1/1/04 from $10,000 to $2,500 for those employees only working in the zone and from $15,000 to $5,000 for those employees both working and living in the zone. Any unused enterprise zone credits carried forward from years ending prior to 1/1/04 will still be allowed as a credit for the following three tax years as long as there is sufficient tax to be offset and the employer maintains his level of employment as last certified in accordance with Chapter 42-64-3-6(6).

Legislation passed requiring Pass-Through Entities such as “s” corporations, general partnerships, limited partnerships, limited liability partnerships, trust, or limited liability companies that are not taxed as corporations for federal tax purposes to withhold from the member’s share of income of the entity which is derived from or attributable to sources within this state distributed to each nonresident member and pay the withheld amount to the Tax Division at either the highest individual rate or nine percent (9%) for corporations. A pass-through entity is not required to withhold tax for a nonresident member if:

1. the member has a pro rata or distributive share of income from the pass-through entity from doing business in this state of less than $1,000 per annual accounting period.
2. the tax administrator has determined by regulation, ruling or instruction that the member’s income is not subject to withholding, or
3. the member elects to have the tax due paid as part of a composite return filed by the pass-through entity, or
4. the entity is a publicly traded partnership and defined by section 7704(b) of the Internal Revenue Code that is treated as a partnership for the purposes of the Internal Revenue Code and that has agreed to file an annual information return reporting the name, address, taxpayer identification number and other information requested by the tax administrator of each unit holder with an income in this state in excess of $500.

Regulations and forms dealing with pass-through entities and their requirements for withholding of tax for nonresident members will be completed as soon as possible, but certainly in time for the 2005 tax filing season as it relates to the 2004 tax year.

Questions on the above legislative changes should be addressed to the Corporation Tax Section at (401) 222-1120 or the Personal Income Tax Section at (401) 222-3911.
Schedule B - Exempt Dividends and Interest
1. Dividends received from shares of stock of any payor liable for RI taxes as outlined in Chapters 11, 13, 14 & 17 Schedule C, US 1120
2. Amount of such dividends included in Special Deductions, Schedule A, line 2b
3. Balance of Exempt Dividends - Line 1 less line 2
4. Foreign Dividends included on lines 12, 14 & 17 Schedule C, US 1120
5. Less 20% owned
6. More than 20% owned
7. 100% owned
8. Interest on obligations of public service corporations liable for Rhode Island Gross Earnings Tax
9. Interest on certain obligations of the US - (Attach schedule)
10. Interest on obligations of US possessions and other interest exempt under Rhode Island Law - (Attach schedule)
11. Total - Add lines 3 through 9 - Enter here and on page 1, schedule A, line 2c

Schedule C - Final Determination of Net Income by Federal Government
Has the Federal Government changed your taxable income for any prior year which has not yet been reported to the Tax Administrator?

Schedule D - General Information
Location of principal business in Rhode Island
Location of corporation’s books and records
State and date of incorporation
Number of shares of authorized stock
Par value per share
No par value
Location of corporation’s books and records
Location of principal of business in Rhode Island
Schedule E - Federal Taxable Income
Enter amount for year that ended

Schedule F - Apportionment

Receipts
1. a. Gross receipts
2. b. Dividends
3. c. Interest
4. d. Rents
5. e. Royalties
6. f. Net capital gains
7. g. Ordinary income
8. h. Other income
9. i. Income exempt from federal taxation
10. j. Total
11. k. Ratio of Rhode Island to total, line 1a, column A divided by line 1a, column B

Salaries
1. a. Salaries and wages paid or incurred - (Use instructions)
2. b. Payroll tax paid
3. c. Total

Ratio
1. a. Total of Rhode Island Ratios shown on lines 17, 28 and 33
2. b. Ratio of Rhode Island Ratios shown on line 1 of 4
3. c. Ratio of Rhode Island Ratios shown on line 1d of 3 or by the number of ratios - enter here and on page 1, schedule A, line 2f

This return will not be complete unless all required schedules from Federal 1120 or applicable US form are attached.
shall be the excess of the installment or installments which would be required to be paid if the advance payments were equal to eighty percent (80%) of the tax shown on the return for the taxable year or if no return was filed eighty percent (80%) of the tax for such year, over the amount, if any, of the installment paid on or before the last date prescribed for payment.

The tax provides for the assessment of a penalty of 5% of the tax imposed on such corporations for such taxable year for failure to file required estimated payments.

7. CHANGE IN NET INCOME BY FEDERAL GOVERNMENT:

Any change in net income for any prior year directly affects the tax liability to the State of Rhode Island and such changes must be reported to the Tax Administrator within 60 days of final adjustment or determination on Form 5-700.

8. SUPPORTING SCHEDULES:

All schedules are to be firmly attached to back of page 3 of the return. Each schedule must be clearly identified with the item which it supports. Write upon one side of the sheet only; so that schedule may be read without detaching from the return. If space permits, more than one schedule may be placed on a single sheet.

9. CONSOLIDATED RETURNS:

An affiliated group, as defined in regulations promulgated by the Tax Administrator, may file a consolidated return for the taxable year provided that all the corporations which constitute such affiliated group at any time during the period for which the return is made and which are subject to taxation under Chapter 44-11 shall consent to the making of such consolidated return. If the affiliated group includes corporations which are not subject to the Rhode Island Business Corporation Tax, those corporations must be excluded from the Rhode Island affiliated group. In filing a consolidated return separate income statements, balance sheets, and if applicable, appointment schedules for each corporation joining in the filing, must be filed together with the return for each corporation joining in the filing.

10. INVESTMENT CREDIT:

R.I. Law allows an investment tax credit of 2% of the cost or other basis used as federal income tax purposes of any property owned by the taxpayer in the production of goods by manufacturing, processing or assembling. The credit allowed is 4% for qualified property placed in service January 1, 1994 through December 31, 1997 and 10% for qualified taxpayers from January 1, 1998 and thereafter. Detailed instructions are available on Form RI 486 which must accompany any return claiming an investment credit. Forms RI 486 may be obtained at the office of the Division of Taxation.

11. RENEWABLE ENERGY SYSTEM CREDIT:

An eligible provider may claim a credit for a photovoltaic system, solar domestic hot water system, active solar heating system or wind generation system installed in a dwelling in Rhode Island. The credit for systems claimed in 2004 is 5% of the cost of the system. For additional information and requirements, please contact the Rhode Island Division of Taxation, Taxpayer Assistance Section.

12. EDUCATIONAL ASSISTANCE AND DEVELOPMENT CREDIT:

A credit is available for 8% of the cost of tuition, fees, books and supplies required in courses taken in a post-secondary educational institution. The credit is allowable for a taxpayer who is a dependent of a taxpayer or employed by a commercial tenant of the tenant.

13. ADULT EDUCATION TAX CREDIT:

A R.I. employer may claim a credit of 50% of the costs incurred solely and directly for non-credit or on-credit adult education programs. The maximum credit per employee under the new provisions is $200 and the maximum overall credit per taxable year per employer is $50,000. Amounts of credit not deductible in one taxable year cannot be carried over to the following year and may not reduce the tax to less than $500.

14. EMPLOYMENT TAX CREDIT:

An employer who participates in the bonus program in conjunction with Chapter 40-6.3 of the general laws shall be eligible for a tax credit as set forth in R.I.G.L. exclude 40-6.3.4. A completed claim for credit must claim a written certificate from the Director of Human Services that the employer has completed with the provisions of Chapter 40-6.3 and the rules and regulations promulgated thereunder. This credit may not reduce the tax to less than $500.00. Amounts of unused credit may not be carried over to subsequent years.

15. CHILD DAY-CARE ASSISTANCE AND DEVELOPMENT CREDIT:

Effective July 1, 1987, a credit is allowed against the business corporation tax of a taxpayer who pays for or provides child day-care services that provides real property or dedicates real estate for child day-care services to its employees or to the employees of its commercial tenants.

Taxpayers are required to claim a credit not deductible in one tax year may not be carried over to the next five consecutive taxable years.

16. CAPITAL INVESTMENT IN SMALL BUSINESSES:

Title 44, Chapter 44-42 of the General Laws provides a deduction for purposes of computing net income under the Rhode Island Business Corporation Tax (Chapter 44-11) for a qualifying investment in a certified venture capital partnership or credit for the creation of a capital venture business entity for certain wages paid to employees of such entity.

Corporations claiming deductions for investments in certified venture capital partnerships or for credits to small businesses should contact the Rhode Island Division of Taxation, One Capitol Hill, Providence, RI 02908-5811 for forms and instructions of a qualifying business entity for any employee.

17. ENTERPRISE ZONE TAX BENEFITS:

The Enterprise Zone Council enacted by 24-64-3.3-1 has created RI enterprise zones. Various tax benefits may be available to taxpayers in the form of business credits, special sales tax incentives, duty credit and incentive credits. Taxpayers wishing to use these benefits, should contact the Division of Taxation for details.

Schedule A - Computation of Tax

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Federal Taxable Income (see instructions)</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Deductions</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Total Deductions</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Additions</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Total Adjustments</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Tax and Credits</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Credits</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Balance Due</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Refund</td>
<td></td>
</tr>
</tbody>
</table>

Note: Attach legible copy of all pages and schedules of Federal Return