

RHODE ISLAND TAX NEWS

A NEWSLETTER FOR TAX PROFESSIONALS

SPECIAL EDITION: FILING SEASON 2017

WHAT'S NEW FOR FILING SEASON

Many businesses will see tax relief this filing season -- and so will some individuals.

In addition, there will be

new filing deadlines and extended due dates this season for business filers.

Also, individuals will have a few extra days to meet

their filing deadline. The due date for Rhode Island personal income tax returns, normally April 15, will be on April 18, 2017.

Preparers and taxpayers will also find this filing season an increase in the statewide property-tax relief credit (Form RI-1040H) and a change in the earned income credit formula — with many taxpayers benefiting as a result.

(Coverage of the 2017 filing season, for tax year 2016, begins on page 2.)



Tax Topics: More than 100 tax preparers attended the Division of Taxation's "Seminar for Tax Preparers" (see above) held at the Community College of Rhode Island's Knight Campus in Warwick on November 4, 2016.



SPECIAL EDITION: FILING SEASON

This filing season, many tax preparers and taxpayers will first encounter the new Rhode Island personal income tax break for Social Security benefits. The break, in the form of a modification, was approved in 2015, but applies to tax years beginning on or after January 1, 2016. Thus, it will first show up on returns this filing season. Coverage begins on page 9 of this issue of *Rhode Island Tax News*.

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DRIVER'S LICENSE REQUIREMENT

For the second consecutive filing season, Rhode Island and most other states will ask taxpayers and preparers to enter taxpayer driver's license information when preparing returns on tax-preparation software.

New for this season, Rhode Island and most other states also will ask preparers to enter the driver's license information on paper-filed returns.

It is part of a coordinated and collaborative effort among the states, the Inter-

nal Revenue Service, tax software providers, and others to verify filings and help combat the growing problem of tax refund fraud.

For more about the driver's license information requirement, please see page 12.



FILING SEASON: APRIL 18 FILING DEADLINE

The filing and payment deadline for Rhode Island resident and nonresident personal income tax returns this season will be April 18, 2017.

Why? April 15 this year falls on a Saturday. Normally, the deadline would move to the next business day, which in this case would be Monday, April 17.

However, Emancipation Day will be celebrated in Washington, D.C., on Monday, April 17. Internal Revenue Code § 7503, says, in part, that when the filing deadline falls on a legal holiday, the deadline is moved to

the next day which is not a Saturday, Sunday, or a legal holiday.

The term “legal holiday” includes a legal holiday in the District of Columbia. Because Emancipation Day is observed in the District on Monday, April 17, the federal income tax filing deadline will be pushed to the next business day -- Tuesday, April 18, 2017. Under Rhode Island Division of Taxation Regulation PIT 98-7, Rhode Island typically follows federal rules on filing deadlines in such circumstances. Thus, Rhode Island’s personal income tax filing deadline this year will

also be Tuesday, April 18, 2017.

Neighboring states

The following information is provided for the convenience of those Rhode Island residents and preparers who file personal income tax returns to neighboring states:

Connecticut is following the federal deadline of April 18, 2017, for Connecticut tax purposes, according to the Connecticut Department of Revenue Services.

The Massachusetts filing deadline, for Massachusetts tax purposes, is April 18, 2017, according to , according to the Massachusetts Department of Revenue,



Editor’s Note

The Rhode Island Division of Taxation in the fall announced changes to the original due dates and extended due dates for a number of business returns for tax year 2016.

As a result, businesses will have the same deadlines this filing season for their federal and Rhode Island returns -- a convenience for businesses and for tax professionals. Full details begin on page 3 of this issue of *Rhode Island Tax News*.

This issue also focuses on a number of other changes to keep in mind during this filing season.

A separate issue of *Rhode Island Tax News* is scheduled to be posted soon and will include coverage of what’s new for tax year 2017, as well as the newsletter’s regular features -- including “Practitioners’ Corner” and “Legal Corner.”

The April 18, 2017, filing deadline

This filing season, the deadline is April 18, 2017, for filings and payments. The April 18 deadline applies to the following for Rhode Island tax purposes:

- Resident and nonresident personal income tax returns.
- Calendar-year C corporations that file their return on Form RI-1120C.
- Public service corporation tax filers
- Bank excise tax filers
- Insurance gross premiums tax filers
- A single-member limited liability company (LLC) owned by individual whose deadline is April 18.
- Fiduciary returns, using a calendar year, on Form RI-1041.
- Property-tax relief claims on Form RI-1040H.
- Residential lead abatement credit claims on Form RI-6238.
- First quarterly estimated payment for 2017 of Rhode Island personal income tax.



FILING SEASON: NEW FILING DEADLINES FOR BUSINESS

Preparers of business tax returns will have to adjust to new filing deadlines this season – and new extended due dates, too.

The new dates are the result of statutory and administrative changes at the federal and state levels. (Note that the formulas and deadlines for estimated taxes have not changed.) Following is a summary.

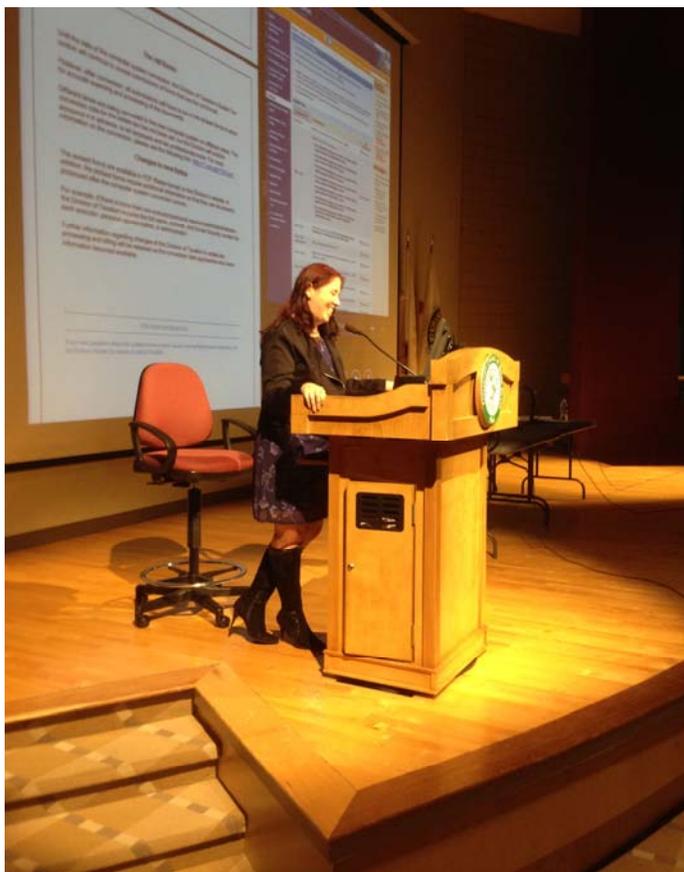
Pass-through entities

For partnerships – and for limited liability companies with more than one member that are treated as pass-through entities for federal tax purposes – the original due date for filing Form RI-1065 is the 15th day of the third month after the close of the taxable year.

Thus, for calendar-year partnerships and multi-member LLCs that are treated as pass-through entities for federal tax purposes, the original due date this year will be March 15, 2017, one month earlier than in prior years.

The extended due date for partnerships and for multi-member LLCs will be the 15th day of the ninth month after the close of the taxable year. So these entities have a six-month extension.

Thus, for calendar-year partnerships and multi-member LLCs that are treated as pass-through entities for federal tax purposes, the extended due date will be



Seminar: *Meaghan Kelly, an attorney who heads the Rhode Island Division of Taxation's Estate Tax section, was one of several speakers at the agency's "Seminar for Tax Preparers" held at the Community College of Rhode Island's Newport County campus in December 2016.*

September 15, 2017.

Single-member LLCs

For purposes of filing its Form RI-1065, a single-member LLC, which, for federal tax purposes, is disregarded as an entity separate from its owner, will use the same original due date and extended due date as its owner. For example, for a single-member LLC owned by an individual who uses the calendar year as his or her tax year, the original due date this year will be April 18, and the ex-

separate set of rules for each of the following three groups:

- C corporations with a calendar year-end.
- C corporations with a June 30 year-end.
- C corporations with a year-end other than December 31 or June 30.

Calendar Year: For a calendar-year C corporation, the original due date this year will be April 18. Calendar-year C corporations -- including those subject to mandatory unitary combined reporting -- will have a five-month extension this year, making their extended due date September 15.

June 30: For a C corporation with a June 30 fiscal year-end, the original due date this year will be September 15; the extended due date will be seven months later, in mid-April 2018.

Fiscal Year: For C corporations with a fiscal year-end other than June 30, the original due date will be the 15th day of the fourth month after the close of the tax year; they will have a six-month extension, making the extended due date the 15th day of the 10th month after the close of the taxable year.

(Please turn to page 4)

tended due date will be October 16. (The owner filing on behalf of the single-member LLC need not attach documentation to the Form RI-1065, but must keep such documentation on file should it be needed by the Division of Taxation.)

C corporations

For an entity treated as a C corporation for federal income tax purposes, the original and extended due dates depend on the entity's year-end. In essence, there is a



FILING SEASON: NEW FILING DEADLINES (CONTINUED FROM PAGE 3)

The schedules outlined in this article for C corporations shall apply to all of the following:

- Regular C corporations subject to Rhode Island General Laws Chapter 44-11 and filing on Form RI-1120C;
- Those subject to the public service corporation tax (the public service gross earnings tax) filing on Form T-72 under Rhode Island General Laws Chapter 44-13);
- Those subject to the taxation of banks (bank excise tax) filing on Form T-74 under Rhode Island General Laws Chapter 44-14; and
- Those subject to the taxation of insurance companies (insurance gross premiums tax) and filing Form T-71 under Rhode Island General Laws Chapter 44-17.

(For an at-a-glance look at C corporation filing deadlines and extended due dates, see table below.)

Subchapter S

There is no change for subchapter S corporations. Thus, for a calendar-year subchap-



Business Filing: Marlen Bautista, chief revenue agent of the Division of Taxation's Corporate Tax section, discussed business filing deadlines and other issues at a meeting of the Rhode Island Society of Certified Public Accountants December 14 at the Providence Marriott Downtown hotel.

ter S corporation filing on Form RI-1120S, the original due date this year will be March 15, 2017, and the extended due date will be September 15, 2017.

Other returns

Calendar-year fiduciary in-

come tax returns on Form RI-1041 will be due on April 18, 2017, and their extended due date will be a bit later than usual: October 2, 2017.

For a calendar-year Form RI-1096PT, the due date is March 15, and the extended due date is September 15.

The same dates also apply for a calendar-year composite income tax return on Form RI-1040C.

Also, deadlines for estimated and annual tax payments, and for returns, for surplus lines insurance brokers/licensees have not changed.

First encounter

Due dates described in this article take effect for tax years beginning after December 31, 2015. Most tax professionals will first encounter them during the coming filing season.

Also, as under prior law, an "extension" means an extension of the time to file, not of the time to pay; payments still must be made by the original due date of the return.

Filing deadlines

As a convenience for tax preparers and taxpayers, the Division of Taxation includes, in this issue, several tables which show, at a glance, the original due dates and extended due dates for various filers. The tables begin on this page and continue on the following pages.

(If an entity is not listed in the tables, neither its due date nor its extended due date has changed.)

Snapshot of filing deadlines for C corporations

Year-end	Due date	Maximum extension	Extended due date
December 31	April 15	Five months	September 15
June 30	September 15	Seven months	April 15
Fiscal year (other than June 30)	15 th day of 4 th month (after close of tax year)	Six months	15 th day of 10 th month (after close of taxable year)

Deadlines shown in table do not take into account the impact of weekends and holidays. Formulas and deadlines for estimated taxes have not changed. Original and extended due dates for corporate income tax also apply to entities subject to mandatory unitary combined reporting.



FILING SEASON: NEW FILING DEADLINES (CONTINUED FROM PAGE 4)

Due dates for certain entities – calendar-year filers

(For tax years beginning after December 31, 2015)

Tax / Entity	Form	Due date	Extended due date
Business Corporation Tax Corporate income tax, RIGL Chapter 44-11	Form RI-1120C	April 15	September 15
Public Service Corporation Tax Public service gross earnings tax, RIGL Chapter 44-13	Form T-72	April 15	September 15
Taxation of Banks Bank excise tax, RIGL Chapter 44-14	Form T-74	April 15	September 15
Taxation of Insurance Companies Insurance gross premiums tax, RIGL Chapter 44-17	Form T-71	April 15	September 15
Subchapter S Corporations Corporate income tax, RIGL § 44-11-2	Form RI-1120S	March 15	September 15
General partnership RIGL Chapter 7-12	Form RI-1065	March 15	September 15
Limited partnership (LP) RIGL § 7-13-69 (filing as pass-through)	Form RI-1065	March 15	September 15
Limited liability partnership (LLP) RIGL § 7-12-60 (filing as pass-through)	Form RI-1065	March 15	September 15
Limited liability company (LLC) RIGL § 7-16-67 (filing as pass-through)	Form RI-1065	March 15	September 15
Single-member LLC (SMLLC) RIGL § 7-16-67 (owned by individual)	Form RI-1065	April 15	October 15
Income tax of trust Fiduciary income tax return, RIGL § 44-30-51	Form RI-1041	April 15	September 30
Withholding of pass-through entity with nonresident partners, members, shareholders RIGL § 44-11-2.2	Form RI-1096PT	March 15	September 15
Composite income tax return on behalf of qualified electing nonresident members RIGL § 44-11-2.2(d)	Form RI-1040C	March 15	September 15

Notes: Deadlines shown in table do not take into account impact of weekends and holidays. Formulas and deadlines for estimated taxes have not changed. Original and extended due dates for corporate income tax also apply to entities subject to mandatory unitary combined reporting. Single-member LLC (SMLLC) uses same due date and extended due date as its owner; this table assumes owner is individual.



FILING SEASON: NEW FILING DEADLINES (CONTINUED FROM PAGE 5)

Due dates for certain entities – June 30 year-end

(For tax years after December 31, 2015)

Tax / Entity	Form	Due date	Extended due date
Business Corporation Tax Corporate income tax, RIGL Chapter 44-11	Form RI-1120C	September 15	April 15
Public Service Corporation Tax Public service gross earnings tax, RIGL Chapter 44-13	Form T-72	September 15	April 15
Taxation of Banks Bank excise tax, RIGL Chapter 44-14	Form T-74	September 15	April 15
Taxation of Insurance Companies Insurance gross premiums tax, RIGL Chapter 44-17	Form T-71	September 15	April 15
Subchapter S Corporations Corporate income tax, RIGL § 44-11-2	Form RI-1120S	September 15	March 15
General partnership RIGL Chapter 7-12	Form RI-1065	September 15	March 15
Limited partnership (LP) RIGL § 7-13-69 (filing as pass-through)	Form RI-1065	September 15	March 15
Limited liability partnership (LLP) RIGL § 7-12-60 (filing as pass-through)	Form RI-1065	September 15	March 15
Limited liability company (LLC) RIGL § 7-16-67 (filing as pass-through)	Form RI-1065	September 15	March 15
Single-member LLC (SMLLC) RIGL § 7-16-67 (owned by C corp)	Form RI-1065	September 15	April 15
Withholding of pass-through entity with nonresident partners, members, shareholders RIGL § 44-11-2.2	Form RI-1096PT	September 15	March 15
Composite income tax return on behalf of qualified electing nonresident members RIGL § 44-11-2.2(d)	Form RI-1040C	September 15	March 15

Notes: Deadlines shown in table do not take into account the impact of weekends and holidays. Formulas and deadlines for estimated taxes have not changed. Original and extended due dates for corporate income tax also apply to entities subject to mandatory unitary combined reporting. Single-member LLC (SMLLC) uses same due date and extended due date as owner; table assumes owner is C corporation with June 30 fiscal year-end.



FILING SEASON: NEW FILING DEADLINES (CONTINUED FROM PAGE 6)

Due dates for certain entities – fiscal year other than June 30

(For tax years after December 31, 2015)

Tax / Entity	Form	Due date	Extended due date
Business Corporation Tax Corporate income tax, RIGL Chapter 44-11	Form RI-1120C	15 th day of 4 th month (after close of taxable year)	15 th day of 10 th month (after close of taxable year)
Public Service Corporation Tax Public service gross earnings tax, RIGL Chapter 44-13	Form T-72	15 th day of 4 th month (after close of taxable year)	15 th day of 10 th month (after close of taxable year)
Taxation of Banks Bank excise tax, RIGL Chapter 44-14	Form T-74	15 th day of 4 th month (after close of taxable year)	15 th day of 10 th month (after close of taxable year)
Taxation of Insurance Companies Insurance gross premiums tax, RIGL Chapter 44-17	Form T-71	15 th day of 4 th month (after close of taxable year)	15 th day of 10 th month (after close of taxable year)
Subchapter S Corporations Corporate income tax, RIGL § 44-11-2	Form RI-1120S	15 th day of 3 rd month (after close of taxable year)	15 th day of 9 th month (after close of taxable year)
General partnership RIGL Chapter 7-12	Form RI-1065	15 th day of 3 rd month (after close of taxable year)	15 th day of 9 th month (after close of taxable year)
Limited partnership (LP) RIGL § 7-13-69 (filing as pass-through)	Form RI-1065	15 th day of 3 rd month (after close of taxable year)	15 th day of 9 th month (after close of taxable year)
Limited liability partnership (LLP) RIGL § 7-12-60 (filing as pass-through)	Form RI-1065	15 th day of 3 rd month (after close of taxable year)	15 th day of 9 th month (after close of taxable year)
Limited liability company (LLC) RIGL § 7-16-67 (filing as pass-through)	Form RI-1065	15 th day of 3 rd month (after close of taxable year)	15 th day of 9 th month (after close of taxable year)
Single-member LLC (SMLLC) RIGL § 7-16-67 (filing as pass-through)	Form RI-1065	15 th day of 4 th month (after close of taxable year)	15 th day of 10 th month (after close of taxable year)
Withholding of pass-through entity with nonresident partners, members, shareholders RIGL § 44-11-2.2	Form RI-1096PT	15 th day of 3 rd month (after close of taxable year)	15 th day of 9 th month (after close of taxable year)
Composite income tax return on behalf of qualified electing nonresident members RIGL § 44-11-2.2(d)	Form RI-1040C	15 th day of 3 rd month (after close of taxable year)	15 th day of 9 th month (after close of taxable year)

Notes: Deadlines shown in table do not take into account the impact of weekends and holidays. Formulas and deadlines for estimated taxes have not changed. Original and extended due dates for corporate income tax also apply to entities subject to mandatory unitary combined reporting. Single-member LLC (SMLLC) uses same due date and extended due date as its owner; table assumes owner is C corporation which has a fiscal year-end other than June 30.



FILING SEASON: EARNED INCOME CREDIT

Eligible taxpayers are in store for a boost in the amount of the Rhode Island earned income credit this filing season.

At issue, under federal and Rhode Island law, is a special tax credit available for the working poor.

It is called the earned income credit, or EIC. (It is sometimes referred to as the earned income tax credit, or EITC.)

Both credits

Eligible taxpayers may claim a federal earned income credit and a Rhode Island earned income credit.

For the 2016 tax year – in other words, for the returns being filed during the 2017 tax-filing season -- Rhode Island is making available a more generous earned in-



Personal Income Tax: *Leo Lebeuf (above), chief revenue agent in the Rhode Island Division of Taxation's Personal Income Tax section, talked about the earned income credit and other topics during a presentation on December 14 before the Rhode Island Society of Certified Public Accountants, held at the Providence Marriott Downtown hotel.*

come credit.

For tax year 2015, the Rhode Island credit was 10

percent of the federal credit. For tax year 2016, however, the Rhode Is-

land credit is 12.5 percent of the federal credit – and will continue to be fully refundable.

As a result, a claimant whose circumstances for 2016 are the same as in 2015 could receive a 25 percent higher Rhode Island earned income credit.

Example of credit

Suppose a family received a \$5,000 federal earned income credit during the 2016 filing season and will receive the same during the 2017 filing season. Their Rhode Island credit might have been \$500 in the 2016 filing season, but \$625 for this filing season – an increase of \$125.

Rhode Island earned income credit – Example 1

	Tax year 2015	Tax year 2016
Rhode Island income tax liability	\$0.00	\$0.00
Federal earned income credit	\$1,000.00	\$1,000.00
Rhode Island percentage	10%	12.5%
Rhode Island earned income credit	\$100.00	\$125.00

Rhode Island earned income credit – Example 2

	Tax year 2015	Tax year 2016
Rhode Island income tax liability	\$700	\$700
Federal earned income credit	\$5,000	\$5,000
Rhode Island percentage	10%	12.5%
Rhode Island earned income credit	\$500	\$625

Preventing EIC fraud

To prevent fraud, tax preparers must take certain steps to ensure that claimants for the earned income credit meet the requirements. For example, claimants must have “earned income” – in other words, money from a *bona fide* job. For more information, see Rhode Island Division of Taxation Regulation 14-23, “Tax Preparer Penalties,” which says, among other things, that it is the responsibility of the tax return preparer “to be knowledgeable about the law with regard to EIC, make reasonable inquiries of the taxpayer, and review supporting documentation provided by the taxpayer to validate the assertions made in preparing a Return that claims EIC.”



FILING SEASON: SOCIAL SECURITY TAX BREAK

A new Rhode Island personal income tax break for Social Security benefits will appear for the first time on returns filed this season.

In general, the new Rhode Island tax break applies to many of those who must pay federal income tax on part of their Social Security retirement benefits. (Nationwide, about half of all beneficiaries must pay federal income tax on their Social Security benefits.)

If you are eligible for the break, you will be able to save on your Rhode Island income taxes. Following is a summary of the tax break and how it works.

The “break” is in the form of a modification, which reduces the amount of your federal adjusted gross income (AGI) for Rhode Island purposes.

The tax break was approved by the General Assembly and signed into law by Governor Gina M. Raimondo in June 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 decreasing AGI



Photo by Katie O'Hanlon

Signing: The budget bill that was signed in June 2015 by Governor Gina M. Raimondo (seated) included a tax break for eligible retirees who collect Social Security benefits. The tax break took effect for tax years beginning on or after January 1, 2016, so this is the first filing season in which taxpayers may claim it on their returns. Also at the June 2015 signing ceremony were (from left) Rep. Scott A. Slater, House Speaker Nicholas A. Mattiello, Sen. Walter S. Felag, Jr., Senate Majority Leader Dominick J. Ruggiero, Senate President M. Teresa Paiva Weed, Rep. Marvin L. Abney (now chair of the House Finance Committee), and Senate Finance Committee Chairman Daniel Da Ponte.

is allowed for certain beneficiaries of the federal Social Security program.

To qualify, you must clear three main hurdles:

- ◆ Some of your Social Security benefits must be taxed at the federal level;
- ◆ You must have reached “full retirement age” as defined by the Social Security Administration (generally age 66 or older); and
- ◆ Your federal adjusted gross

income must be below a certain amount (generally \$100,000 for a married couple filing a joint return, \$80,000 for someone who is single).

If you clear all three hurdles, the amount of your income that is taxed by Rhode Island will be reduced by the amount of your Social Security benefits that are taxed at the federal level, saving you money.

(Please turn to page 10)

E-file reminder

The Rhode Island Division of Taxation this filing season will accept 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 SEASON: SOCIAL SECURITY (CONTINUED FROM PAGE 9)

For example, suppose that Walter, 70, is single, retired, and collecting Social Security benefits. His federal AGI for 2016 was \$50,000, which included \$10,000 of taxable Social Security benefits.

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

Therefore, assuming he is in the 3.75 percent Rhode Island tax bracket, he could save \$375 in Rhode Island personal income tax in this example.

(The example does not take into account other factors that could affect his Rhode Island tax, such as other modifications that could decrease or increase income; the Rhode Island standard deduction; personal exemption; tax credits; and use tax.)

In the computation of the Rhode Island personal income tax modification for Social Security benefits for tax year 2016, you'll have to list, on the worksheet in the form instructions, the amounts of Social Security benefits as shown on lines 20a and 20b of your U.S. Form 1040, or lines 14a and 14b of your U.S. Form 1040A.

(Please turn to page 11)

Table 1. Social Security tax break: Overview

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. Social Security tax break: 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, as determined in worksheet in Form RI-1040 instructions.

Table 3. Social Security tax break: 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.



FILING SEASON: SOCIAL SECURITY (CONTINUED FROM PAGE 10)

To compute the amount of your Social Security tax break (if any), first answer the three main questions:

- 1.) Are any of your Social Security benefits taxable at the federal level?
- 2.) Have you reached full retirement age (as defined by the Social Security Administration)?
- 3.) Is your federal adjusted gross income below \$80,000 if you're single, or \$100,000 if you're married and file a joint return?

If you answer yes to all three questions, fill out Rhode Island's new "Taxable Social Security Income Worksheet." If, after completing the worksheet, you qualify for the Social Security tax break, carry the worksheet's result over to Schedule M of your Form RI-1040. (That way, you can lower the amount of your income that's subject to Rhode Island tax.)

Note: In the case of a married couple filing a joint return, the "full retirement age" test applies to each spouse.

So if only one spouse is of full retirement age, only that spouse's portion of the couple's Social Security benefits overall will be taken into account for purposes of the modification. (See worksheet for more information.)

If you file U.S. Form 1040A (see screenshot below), use the information from lines 14a and 14b to help complete the Rhode Island "Taxable Social Security Income Worksheet" for your Rhode Island return.

Income		d Total number of exemptions claimed.	above ▶
7	Wages, salaries, tips, etc. Attach Form(s) W-2.	7	
8a	Taxable interest. Attach Schedule B if required.	8a	
b	Tax-exempt interest. Do not include on line 8a.	8b	
9a	Ordinary dividends. Attach Schedule B if required.	9a	
b	Qualified dividends (see instructions).	9b	
10	Capital gain distributions (see instructions).	10	
11a	IRA distributions.	11a	11b Taxable amount (see instructions).
11b		11b	
12a	Pensions and annuities.	12a	12b Taxable amount (see instructions).
12b		12b	
13	Unemployment compensation and Alaska Permanent Fund dividends.	13	
14a	Social security benefits.	14a	14b Taxable amount (see instructions).
14b		14b	
15	Add lines 7 through 14b (far right column). This is your total income.	▶	15

If you file U.S. Form 1040 (see screenshot below), use the information from lines 20a and 20b to help complete the Rhode Island "Taxable Social Security Income Worksheet" for your Rhode Island return.

Income		7	7
7	Wages, salaries, tips, etc. Attach Form(s) W-2		
8a	Taxable interest. Attach Schedule B if required		8a
b	Tax-exempt interest. Do not include on line 8a	8b	
9a	Ordinary dividends. Attach Schedule B if required		9a
b	Qualified dividends	9b	
10	Taxable refunds, credits, or offsets of state and local income taxes		10
11	Alimony received		11
12	Business income or (loss). Attach Schedule C or C-EZ		12
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>		13
14	Other gains or (losses). Attach Form 4797		14
15a	IRA distributions	15a	b Taxable amount
15b		15b	
16a	Pensions and annuities	16a	b Taxable amount
16b		16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17
18	Farm income or (loss). Attach Schedule F		18
19	Unemployment compensation		19
20a	Social security benefits	20a	b Taxable amount
20b		20b	
21	Other income. List type and amount		21
22	Combine the amounts in the far right column for lines 7 through 21. This is your total income	▶	22

To determine if you are eligible for the tax break on Social Security benefits, and how much of a break you may receive, complete the Rhode Island "Taxable Social Security Income Worksheet" for your Rhode Island return.

State of Rhode Island and Providence Plantations
2016 Modification Worksheet
Taxable Social Security Income Worksheet

Name Social security number

NOTE: Use this worksheet to determine the amount, if any, of your Social Security modification on Schedule M, line 1u.

MODIFICATION FOR TAXABLE SOCIAL SECURITY INCOME WORKSHEET

STEP 1: Eligibility

1 Enter your date of birth.....	1	
2 Enter your spouse's date of birth, if applicable.....	2	
3 Enter your Federal AGI from RI-1040 or RI-1040NR, line 1.....	3	



FILING SEASON: FIGHTING FRAUD: DRIVER'S LICENSE

Most states, including Rhode Island, will once again this filing season ask taxpayers to provide their driver's license information when preparing their personal income tax returns.

The aim is to help authenticate the returns that are filed – one more tool that the states are implementing in their continuing effort to combat the increasing problem of tax refund fraud.

The states will ask preparers and taxpayers to enter the driver's license information into their tax preparation software program where indicated.

It is part of a broader anti-fraud effort launched collaboratively by the states, the Internal Revenue Service, tax software providers, and others.

One switch this season: preparers and taxpayers who file on paper will also be asked to enter driver's license information on returns. (Last season, the inaugural year in this anti-fraud effort, multiple states asked only that the driver's license information be included on electronically filed returns, not paper returns.)

"Tax refund fraud is serious business. Whenever someone

obtains a Rhode Island personal income tax refund by providing fraudulent information, it represents theft of taxpayer dollars. So Rhode Island and many other states are asking taxpayers and preparers to help out this season as we bolster our campaign to combat tax refund fraud," said Rhode Island Tax Administrator Neena S. Savage.

"When someone prepares a Rhode Island personal income tax return, we are asking the preparer – whether that's a professional or the taxpayer himself or herself – to provide the driver's license number or state-issued identification number, if available. We are also asking the preparer to enter that information where indicated on the preparer's tax preparation software screen, or on the paper return," she said.

"It is just one more tool that can be used by the states to authenticate a return," she said.

A return will not be rejected solely because a taxpayer does not provide a driver's license number, or if a preparer forgets to enter it into the system, she said. However, "Providing the information can only help process the return more quickly and help in our overall anti-fraud effort," she said.



Photo by Julianne Fisher Bretzbar / IRS

Campaign: IRS Commissioner John Koskinen (far left) and Connecticut Revenue Commissioner Kevin Sullivan (far right) spoke at the Security Summit in Washington, D.C., in November 2015 to launch a campaign to combat tax refund fraud.

Q: Will the driver's license requirement be only for e-filed returns this season, or for paper returns, too?

A: It'll be for e-filed returns as well as paper returns. The paper return has been updated to reflect the change.

Q: How will the driver's license requirement be handled in the case of a married couple filing a joint return?

A: Enter the driver's license number of both spouses. If only one spouse has a driver's license, enter that number. If one or both spouses has a state-issued ID number, enter that number.

Q: What if my client is claiming a dependent?

A: Do not enter the dependent's driver's license number or state-issued ID number on your client's

return.

Q: What if the dependent files his or her own return?

A: If the dependent files his or her own return, the dependent's driver's license or state-issued ID number should be entered on that dependent's own return.

Q: What if a client doesn't have a driver's license?

A: Ask for a state-issued ID number. If neither a driver's license number nor state-issued ID number is available, proceed with preparing the return.

Q: What if the client has a license from another state?

A: If the taxpayer has a driver's license issued in another state, enter that number on the client's return.



FILING SEASON: FIGHTING FRAUD: FORM W-2

The use of a verification code on Form W-2 wage statements is being expanded for this filing season.

The move represents another in a series of steps by the IRS and the states to combat tax-related identity theft and refund fraud.

Last season, the special codes appeared on 2 million Forms W-2 nationwide. This season, however, the special codes will appear on 50 million Forms W-2 nationwide.

As a consequence, many – though not all – Forms W-2 will end up carrying the special codes.

The objective is to verify Form W-2 data submitted by taxpayers on e-filed individual tax returns.

The IRS has partnered with certain payroll service providers to include the 16-digit code and a new Verification Code field on certain W-2



Tax Talk: Daniel T. Clemence, chief revenue agent, Tax Processing Services, Project Oversight & Development, talked about tax refund fraud during a presentation on December 14 before the Rhode Island Society of Certified Public Accountants in a meeting at the Providence Marriott Downtown hotel.

For the purposes of the test, omitted and incorrect W-2 verification codes will not delay the processing of a tax return. Nevertheless, the IRS is urging preparers and taxpayers to enter the codes if they appear on Forms W-2.

The code will not be included in Forms W-2 or W-2 data submitted by the payroll service providers to the Social Security Administration or any state or local tax agencies.

Also, the verification code program will not affect state and local income tax returns or paper federal returns, the IRS says.

The W-2 verification code is part of a collaboration by the IRS, the states, tax software providers, and others to step up efforts to fight tax fraud during the coming filing season.

Many of the anti-fraud steps being taken by the IRS and the states cannot be disclosed for security reasons.

However, at least two steps have emerged publicly: the W-2 verification program (summarized on this page), and the driver's license requirement (summarized elsewhere in this newsletter).

Both have to do with authenticating returns or return information to help ensure that the returns are not fraudulent.

copies. Tax professionals are urged to look for "Verification Code" on W-2s because location will vary. (See Box 9 in example at left.)

The code will be displayed in four groups of four alphanumeric characters, separated by hyphens. Example: XXXX-XXXX-XXXX-XXXX.

The code will appear on some versions of payroll firms' Form W-2 copies B and C, in a separate, labeled box. The form will include the following instructions to

taxpayer and tax preparers:

Verification Code. If this field is populated, enter this code when it is requested by your tax return preparation software. It is possible your software or preparer will not request the code. The code is not entered on paper-filed returns.

Some employees will receive a Form W-2 with a "Verification Code" box that's blank. These taxpayers do not need to enter any code data into their tax software product in that case.

Control number		Dept.	Corp.	Employer size only
216543 ROSE/ABC		100	AABB	A 223
ACME SUPPLIES CORPORATION 15 CENTER STREET ANYTOWN, USA 12345 Batch# 00001				
JANE HARPER 101 MAIN STREET ANYTOWN, USA 12345				
Wages, tips, other comp.		Federal income tax withheld		
32937.80		2560.00		
Social security wages		Social security tax withheld		
35037.80		2172.34		
Medicare wages and tips		Medicare tax withheld		
35037.80		508.05		
Social security tips		Allocated tips		
0		0		
Other		104-see instructions for line 12		
31.20 BDI		C 37.80		
500.00 AUTO		104-D 2100.00		
		104-DO 8543.00		
		104-SEE INSTRUCTIONS FOR LINE 12		
		X		



FILING SEASON: PROPERTY-TAX RELIEF CREDIT HIKE

The maximum credit available for qualifying taxpayers under the statewide property-tax relief program has increased approximately 4.7 percent.

For filing season 2017 (covering tax year 2016 returns), the maximum credit claimed on Form RI-1040H is \$335, up from \$320 a year ago, an increase of \$15.

The maximum annual credit was established at \$55 per household in 1977, and was increased by the General Assembly several times until it reached \$300 starting in 2006.

Under that legislative change, the credit can increase based on net terminal income generated by State-authorized video lottery games.

Although such increases had been possible since July 2007, it turns out that tax year 2014 was the first time that an increase could occur based on the limits of the formula. And, based on the formula, the maximum credit has increased again, for tax year 2016 – and will apply on returns filed this season.

Keep in mind that the deadline for filing claims on Form RI-1040H this season is April 18, 2017. Also, although the maximum credit amount has increased for this filing season, eligibility rules remain the same.

The program was established only for those 65 and older or disabled. (“Disabled” means



Tax Speaker: *Matthew Lawlor (at lectern above), principal revenue agent in the Rhode Island Division of Taxation’s Personal Income Tax section, discussed recent changes in tax law during the Division’s seminar for tax preparers, held at the Community College of Rhode Island’s Warwick campus on November 4.*

those persons who are receiving a Social Security disability benefit or Supplemental Security Income (SSI) payment.)

The program was broadened by a 1988 law to include disabled persons (elderly or not).

In 1997, the program was expanded to non-disabled people younger than 65. However, under legislation enacted in 2013, effective for 2014 and later tax years, the program returned to its roots, with the credit solely for those 65 and older or disabled.

The annual household income limit also remains at \$30,000.

Statewide property-tax relief credit (Form RI-1040H)

Effective date:	Maximum:
January 2016	\$335.00
January 2015	\$320.00
January 2014	\$305.00
July 2006	\$300.00
July 1997	\$250.00
July 1980	\$200.00
July 1979	\$175.00
July 1978	\$150.00
July 1977	\$55.00

Legislation enacted in 2006 allowed the credit to increase based on net terminal income generated by State-authorized video lottery games. Tax year 2014 was the first time that the credit increased due to that statutory formula. The credit increased again, for tax years 2015 and 2016, due to the formula.



FILING SEASON: PAYMENTS BY DEBIT, CREDIT CARD

Taxpayers may now use their credit cards or debit cards to pay their Rhode Island personal income tax online, through the Rhode Island Division of Taxation website.

Taxpayers therefore now have another, convenient option for paying their personal income tax. It is available now, on the Division of Taxation website, in time for filing season.

The credit card and debit card online payment service, created through a partnership with Rhode Island Interactive LLC, is available through the Division of Taxation website:

<http://www.tax.ri.gov/misc/creditcard.php>

The system will accept credit cards and most debit cards and can be used for payments of the following taxes:

- ◆ personal income tax
- ◆ corporate income tax
- ◆ sales and use tax
- ◆ withholding

For each transaction with a credit card or debit card, the taxpayer will be charged a transaction fee equaling 2.0 percent of the transaction amount, plus a \$1.00 flat fee.

(The taxpayer will be notified of the fee amount before making the payment.)

The Division of Taxation allows the use of credit cards/debit cards for tax payments

only online, not by phone or in person.

Other payments

Taxpayers may continue to pay their Rhode Island personal income tax by check. In addition, for personal income tax payments with final returns, taxpayers may pay by automatic debit of their bank or credit union accounts.

(Arrangements for automatic debits are made using tax-preparation software and must be completed before the return is electronically filed.)

Certain business taxes may be paid online, via ACH debit/credit, through the following Division of Taxation website:

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

Tax cut for business entities

Businesses and tax preparers will see tax relief this filing season in the form of a reduction in the annual corporate minimum tax and in the annual filing charge for pass-through entities.

The annual corporate minimum tax, under Rhode Island General Laws § 44-11-2(e), had long been set at \$500, but has dropped by 10 percent, to \$450, for the 2016 tax year.

Pass-through entities will also see relief. They pay an annual filing fee, or annual filing charge. It, too, had long been set at \$500, but has dropped by 10 percent, to \$450, for 2016.

The reduction in the annual corporate minimum tax, and in the annual filing charge for pass-through entities, will appear on tax forms for the first time this filing season.

The reductions are the result of legislation approved by the General Assembly and signed into law by Governor Gina M. Raimondo in June 2015.



FILING SEASON: SALES TAX RECONCILIATION

Legislation enacted in June 2015 made changes to the application of Rhode Island’s 7 percent sales and use tax, 5 percent statewide hotel tax, and 1 percent local hotel tax to short-term residential rentals – including vacation homes and beach cottages.

Property owners who hold sales tax permits and/or collected and remitted the taxes to the Division of Taxation during 2016 have an annual filing requirement – just as retailers do each year who also have Rhode Island sales tax permits.

The filing is called the annual reconciliation, on Form T-204R, “Sales and Use Tax Return -- Annual Reconciliation.” The form is due on or before January 31, 2017.

Because the 2015 law took effect mid-year, and for other reasons, some property owners did not have to collect and remit the tax during 2015 and did not have to file the annual reconciliation in 2016. But odds are that those property owners were subject to the new law for rentals in 2016, and must now complete and submit the annual reconciliation.

If you rented out a beach cottage, a vacation home, a room in your home, or you made other such rentals last year, and you collected and remitted Rhode Island sales tax, following are a few tips regarding the reconciliation form:

State of Rhode Island and Providence Plantations Form T-204R-Annual Sales and Use Tax Return - Annual Reconciliation		TOTALS
SCHEDULE A - SALES BY CATEGORY	1 a Pet services.....	1a
	b Residential dwelling.....	1b
	c Transportation services (taxi, limo, bus, ground).....	1c
	d Clothing.....	1d
	e Prewritten computer software delivered electronically or by "load and leave".....	1e
	f Over-the-counter (OTC) drugs and medicines.....	1f
	g Other sales: All sales not listed on lines 1a through 1e.....	1g
	h Gross sales. Add lines 1a through 1g.....	1h
	2 USE: Cost of personal property per RIGL 44-18-20.....	2
3 TOTAL. Add lines 1h and 2.....	3	

SCHEDULE B - LEGAL DEDUCTIONS	d Clothing and footwear for general use (\$250 or less).....	4d
	e Sales of motor vehicles.....	4e
	f Boats.....	4f
	g Prescription drugs.....	4g
	h Exempt Organizations	
	1. Federal and State.....	4h1
	2. Other exempt organizations & non-profits RIGL 44-18-30(5).....	4h2
	i Fuels (gasoline, residential heating fuel and other exempt fuels).....	4i
	j Manufacturing (equipment and supplies).....	4j
	k Airplanes and airplane parts.....	4k
	l Residential dwelling (greater than 30 consecutive days or 1 calendar month).....	4k
m Other (Deductions not separately listed above): Specify.....	4m	
n Total Deductions. Add lines 4a through 4m.....	4n	

◆ Don’t start on page one. Go directly to page two and complete Schedules A and B.

◆ On Schedule A, line 1b (*see excerpt at top right of this page*), enter all sales related to residential dwellings/room rentals in calendar year 2016.

◆ On Schedule B, line l (*see excerpt at lower right of this*

page), deduct revenue from each rental that was for longer than 30 consecutive days, or for a calendar month or more.

◆ After you complete Schedules A and B, carry over your net taxable sales to page one and complete the rest of the form.

Keep in mind . .

When preparing your annual reconciliation return, remember that it’s only for Rhode Island’s 7 percent sales tax. Do not include the 5 percent statewide hotel tax or the 1 percent local hotel tax. Also, remember that February 1, 2017, is the deadline to renew your sales tax permit by filing the “Retail Sales Permit Renewal Application” and paying the required \$10 annual fee. Questions? Call (401) 574-8955.



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.

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

BACK ISSUES

Rhode Island Tax News back issues are on the Tax Division website: 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.)

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www.tax.ri.gov

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