

RHODE ISLAND TAX NEWS

A NEWSLETTER FOR TAXPAYERS AND PREPARERS

OCTOBER/NOVEMBER/DECEMBER 2012

GOVERNOR LAUNCHES TAX AMNESTY

Rhode Island Governor Lincoln D. Chafee has officially launched the state's tax amnesty program.

Governor Chafee kicked off the program with a news conference at the State House in Providence. "We've just been through one of the most punishing recessions since the Great Depression," he said.

"The recession was felt across our country and across the world; Rhode Island was not immune. Some businesses and individuals fell behind on their taxes – including their Rhode Island state taxes. For them, and for others who are delinquent on their state taxes, this is a perfect time to pay what



State House conference

Rhode Island Tax Administrator David M. Sullivan (center) and Revenue Director Rosemary Booth Gallogly join Governor Lincoln D. Chafee in a State House news conference to kick off the state's tax amnesty program.

Photo by Michael Rooney / Governor's Office

they owe and get a fresh start," he said.

"Opportunities like this don't come around very

often," said Rhode Island Revenue Director Rosemary Booth Gallogly.

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OUTREACH: TAX DIVISION ON THE ROAD

The Rhode Island Division of Taxation has been on the road lately as part of an outreach effort involving tax practitioners and their clients.

Agency officials in August visited the Rhode Island Society of Certified Public Accountants' office in

Providence to make a formal presentation about the state's tax amnesty program.

The presentation also looked at the corporate e-file mandate, as well as new regulations. More than 40 members of the CPA group attended the session.

Also in August, a Tax Division delegation took part in a news conference held by Governor Lincoln D. Chafee to formally launch the amnesty program. The conference took place in the State Room at the State House in Providence.

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JUSTICE AWARD:

- Rhode Island Attorney General Peter F. Kilmartin honored six Tax Division employees with the annual Justice Award.
- The award is given in recognition of a person's "extraordinary commitment to justice."
- The Tax Division staff members were honored for their role in cracking a smuggling ring involving contraband cigarettes.

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Award Winners

Rhode Island Attorney General Peter F. Kilmartin (at lectern) presents annual Justice Award to Tax Division employees (from left) David Sullivan, Jacques Moreau, Peter McVay, Michael Canole, and Donald Englert. Award winner James Galvin, who was unable to attend the ceremony due to an out-of-state work assignment, was honored in absentia.

ATTORNEY GENERAL HONORS TAX DIVISION STAFF

Rhode Island Attorney General Peter F. Kilmartin has honored six employees of the Rhode Island Division of Taxation for their efforts in cracking a multi-state cigarette-smuggling ring.

General Kilmartin presented the 2012 Justice Award to the Tax Division employees (and to others) during a ceremony at the Attorney General's office at 150 South Main Street, Providence, September 12.

General Kilmartin recounted details of the contraband cigarette case and

praised the work of the Tax Division employees. He then formally presented them with the Justice Award.

The award was given "in recognition of the individuals' extraordinary commitment to justice," and was presented in the name of eight previous Attorneys General.

The award was presented to the following Tax Division employees:

- ◆ Michael Canole, chief of examinations;
- ◆ Donald Englert, chief of the Excise Tax section;

- ◆ James Galvin, Special Investigation Unit Supervisor in Excise Tax;

- ◆ Peter McVay, associate director of revenue;

- ◆ Jacques Moreau, chief of the Compliance & Collections section; and

- ◆ David M. Sullivan, Tax Administrator.

They received the Attorney General Sheldon Whitehouse Award for Consumer Protection. Whitehouse, who was unable to attend the ceremony, provided the winners with special citations.

The winners had been nominated by Rhode Island Department of Revenue Director Rosemary Booth Gallogly, who attended the ceremony.

The entire case – which involved contraband cigarettes

"MOST PEOPLE ASSOCIATE THE DIVISION OF TAXATION AS THE EVIL AGENCY LOOKING TO TAKE YOUR MONEY. IN FACT, IT IS THEIR GOOD INVESTIGATIVE WORK THAT LED TO THE DEMISE OF A MAJOR CRIMINAL ENTERPRISE THAT WAS ILLEGALLY SIPHONING TAXPAYER DOLLARS."

- PETER F. KILMARTIN,
ATTORNEY GENERAL

(including those pictured at left) -- was originally unearthed and developed by Galvin, who brought to the task skills he had honed over many years with the Providence Police force.

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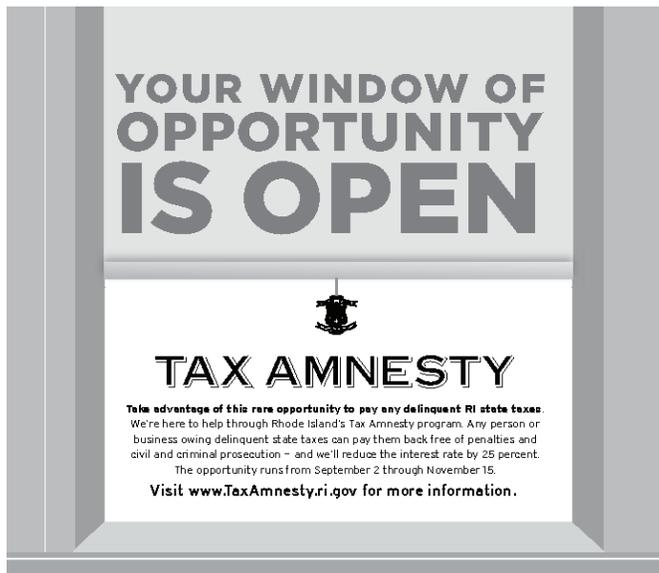


GOVERNOR LAUNCHES TAX AMNESTY (CONTINUED FROM PAGE 1)

“This amnesty is open not just to those who owe personal income tax, but also to those who owe other state taxes – such as corporate income tax, sales and use tax, and employer taxes,” she said.

Tax Administrator David M. Sullivan noted that the Rhode Island Division of Taxation has created a website, www.TaxAmnesty.ri.gov, that includes forms, FAQs, and other information about the amnesty. “The website is a one-stop shop for taxpayers and tax advisers who want to know more about our amnesty program,” Sullivan said.

The tax amnesty is intended to encourage tax delinquents to pay what they owe. If you are delinquent, file the am-



nesty application, file your past-due returns, and pay your back taxes, the Tax Division will take a number of steps to reduce your overall burden. If your application is

approved, the Tax Division will:

- ◆ waive penalties;
- ◆ reduce interest by 25 percent;
- ◆ agree not to pursue civil or criminal penalties; and
- ◆ agree not to block your license renewal.

In its first three weeks of operation, the tax amnesty program attracted 725 applications and generated more than \$2.7 million in revenue.

“We’re off to a very good start,” Sullivan said. Part of the reason is the direct mailing campaign the agency has conducted, he said.

Tax Division records show about \$122 million in delinquent taxes owed by about 70,000 taxpayers, he said. The agency in late August began mailing them letters that provide details and contact information about the tax amnesty program, Sullivan said. That,

TAX AMNESTY CONTACT INFO

Use the following resources to contact Rhode Island's tax amnesty program or to learn more about the program.

◇◇◇

Amnesty website:
www.TaxAmnesty.ri.gov

◇◇◇

Amnesty call center:
(401) 574-8650
8:30 a.m. to 4:00 p.m.
business days

◇◇◇

E-mail:
TaxAmnesty@tax.ri.gov

◇◇◇

FAQs at a glance, [click here](#).

◇◇◇

For detailed FAQs, [click here](#).

◇◇◇

For the **amnesty application**, [click here](#).

◇◇◇

For the “fillable form” version of the **amnesty application**, [click here](#).

in turn, has sparked calls of inquiry to the amnesty program’s call center; many callers want to learn more about amnesty.



Photo by Michael Rooney / Governor's Office

Official launch

Governor Lincoln D. Chafee formally launched Rhode Island's tax amnesty program during a news conference at the State House in Providence. (The campaign also features a number of advertisements, including the one at the top of this page.)



Tax seminar

More than 40 certified public accountants, tax officials, and others attended a recent seminar at the Rhode Island Society of Certified Public Accountants office in Providence. The program was presented by the Rhode Island Division of Taxation; it focused on amnesty, the corporate e-file mandate, and other topics.

(Photo by Susan Breen/Rhode Island Society of Certified Public Accountants)

OUTREACH: TAX DIVISION ON ROAD (CONTINUED FROM PAGE 1)

Among those attending the event were Revenue Director Rosemary Booth Gallogly and Tax Administrator David M. Sullivan.

In September, a Tax Division team traveled to a hotel in Warwick to make a presentation to the Rhode Island Association of Public Accountants.

That seminar, attended by

about 70 people, focused on amnesty, the corporate e-file mandate, regulations, and some other tax topics.

Also during September, some members of the Tax Division staff conducted a seminar at the office of the Rhode Island Economic Development Corporation (EDC) in Providence to provide guidance to taxicab

owners regarding the tax on certain taxicab and related transportation services that took effect October 1.

About 60 taxicab owners and others took part in the seminar. Also attending was David Brooks, chief field investigator for the Rhode Island Division of Public Utilities and Carriers.

“A number of changes to state tax law were enacted earlier this year,” Sullivan said. The changes will affect many taxpayers, he said. “As we implement the changes in the law, we need to let

stakeholders know about them and get their input on our plans,” Sullivan said.

“We’re trying to reach out to as many tax professionals, business owners, and other taxpayers as possible,” said Peter McVay associate director of revenue services.

“Part of our job, in implementing the changes in tax law, involves outreach, communication, and education. We don’t want anyone to be caught by surprise,” Sullivan said. Other outreach sessions are planned.



Tax talk

David Bolton (left), a CPA and partner in Goluses & Company LLP, of Providence, talks with Peter McVay associate director of revenue services, after a recent seminar at the Rhode Island Society of Certified Public Accountants, Providence.

INCOME TAX DEADLINES

Following are two income tax filing deadlines for October:

◆ C corporations that are subject to *pro forma* combined reporting may opt for an additional one-month extension. Thus, for calendar-year C corporations that earlier this year obtained six-

month extensions, the additional one month moves the deadline to October 15, 2012.

◆ The deadline earlier this year for personal income tax returns was April 17. If you obtained a six-month extension, your new deadline is October 15, 2012.

NEW CHIEF OF ESTATE TAX APPOINTED

Linda M. Riordan has been promoted to the rank of chief of the Rhode Island Division of Taxation's Estate Tax section.

She succeeds James V. Cambio, who died in July. The appointment of Riordan was announced in September by Rhode Island Tax Administrator David M. Sullivan.

"It was with great sadness that we learned about the untimely death of our friend and colleague, Jim Cambio. Jim was a consummate professional who navigated with ease the many complexities of our estate tax system, and handled some of our most challenging estate tax matters.

He was also an easy-going, friendly and likeable colleague. It was rare to see him without a smile, and it was a pleasure to work with him," Sullivan said.



Jim Cambio



Chief of Estate Tax

Linda M. Riordan, a Tax Division lawyer, is the agency's new chief of Estate Tax.

"I am delighted to welcome Linda as his successor. We selected her from a field of very strong candidates. Linda brings to the job a wealth of experience, knowledge, and specialized training," Sullivan said.

A native of the Republic of Ireland, Riordan was raised in Norwood, Mass., and studied

at Providence College, from which she graduated in 2005 with a bachelor of arts degree in political science. She went on to Roger Williams University, from which she graduated in 2008 with a Juris Doctor degree.

In 2009 she graduated from the Boston University School of Law with a Master of Law

(LL.M) degree in taxation, specializing in estate and gift taxation. A lawyer, she is a member of the Rhode Island, Massachusetts, and Connecticut bars, and resides in Providence.

Before joining the Rhode Island Division of Taxation, she was employed by the Providence branch of U.S. Trust, where she worked with ultra-high net worth clients. With the Tax Division since September 2010, she has had a variety of tasks, including representing the agency at Administrative Hearings on a variety of tax matters – including sales and use taxes, personal income taxes, and cigarette taxes.

"In her two years at the Tax Division, Linda has become an anchor of our legal team. She is bright, articulate, and professional -- and is a wonderful person to deal with, all qualities that will serve her well in Estate Tax," Sullivan said.

ATTORNEY GENERAL HONORS TAX STAFF (CONTINUED FROM PAGE 2)

It turned out that a Syrian national, based in Massachusetts, had repeatedly driven rented cargo vans to Virginia and certain other states in that region, loaded up on cigarettes from those locations, then drove the cigarettes to a rented storage facility off Jefferson Boulevard in Warwick. From there, he illegally distributed the contraband cigarettes to a number of local retailers.

Through Galvin's efforts,

and the work of the Rhode Island State Police and federal investigators, the smuggling ring was shut down.

Key figure

And the key figure in the case, Mohamad Mohamad, of Cambridge, Mass., was [sentenced on June 28, 2012, in U.S. District Court, Providence](#), by Chief Judge Mary M. Lisi. He had pleaded guilty to federal charges of knowingly transporting, receiving, possessing, selling,

and distributing in excess of 10,000 contraband cigarettes - which bore no evidence of the payment of applicable Rhode Island state cigarette taxes.

Sentencing

He was sentenced to five years' probation, ordered to serve one year in a community confinement center (commonly known as a half-way house), and fined \$5,000.

At the award ceremony, more

than 75 people attended, including former Attorneys General Arlene Violet and James O'Neil.

"Most people associate the Division of Taxation as the evil agency looking to take your money. In fact, it is their good investigative work that led to the demise of a major criminal enterprise that was illegally siphoning taxpayer dollars," General Kilmartin said.

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.

Claim for refund

At issue is whether the taxpayer was too late in filing her claim for a personal income tax refund related to tax year 2005 and 2006.

Rhode Island has two general rules that govern the deadline for filing refund claims:

- ◆ You may file within two years from the time the tax was paid. If you do, the amount of the refund cannot exceed the portion of tax paid during the two years preceding the filing of the claim.
- ◆ You may file within three years of filing a return (or amended return). If you do, the amount of the refund cannot exceed the amount of tax paid within the three years following the date the return was filed.

On July 15, 2006, she filed a return for tax year 2005. She later filed an amended return on April 18, 2011.

Her 2005 tax was deemed paid on April 15, 2006. She filed her amended return and claimed a refund on April 18, 2011 – but that is past the two-year period from the date the taxes were deemed paid. Thus, she did not meet the requirements of the two-year rule.



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.

What about the three-year rule? She was able to file a request for refund within three years of the filing of her amended return. But the law specifically says that the amount of the refund is limited to the portion of tax paid within the three-year period. And the taxpayer had not paid any tax from April 18, 2011 forward. Thus, she did not meet the requirements of the three-year rule.

Hearing Officer Catherine R. Warren made a similar finding regarding the taxpayer's return for 2006. She denied the taxpayer's claim for refunds, citing Rhode Island General Laws (RIGL) § 44-30-87(a), and other statutes. Warren noted that federal rules and Rhode Island rules differ when it comes to

personal income tax refunds. Sullivan on July 16 adopted the hearing officer's decision and recommendation.

- [Final Decision and Order No. 2012-09](#)

Manufacturing exemption

As part of a lengthy and complex case, a corporate taxpayer sought refunds of sales and use tax, saying that certain software was eligible for the manufacturing supply exemption under RIGL § 44-18-30(7), and the manufacturing equipment exemption under RIGL § 44-18-30(22).

The taxpayer argued, in part, that the equipment at issue was purchased in the production phase of the project, and that items in the refund claim were being used in an actual manufacturing plant and are part of and connected with the actual manufacturing of computer software.

The Tax Division argued, in part, that the taxpayer's refund claims do not fall within the scope of the manufacturing exemptions and should be denied.

The hearing officer found that, to be eligible for the manufacturing exemptions, a taxpayer must be manufacturing tangible personal property.

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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 (CONTINUED FROM PAGE 6)

In this case, however, the taxpayer was not manufacturing tangible personal property; its software was not prewritten computer software.

For this and other reasons, the hearing officer recommended that the taxpayer's refund claims be denied. Sullivan on July 24 adopted the hearing officer's decision and recommendation.

- [Final Decision and Order No. 2012-10](#)

Car lease

Should the sales tax apply to the entire amount that someone pays each month for a leased vehicle?

A consumer entered into a motor vehicle lease agreement in 2009, which called for 39 lease payments. According to the agreement, the leasing company told the consumer that "should we have to pay any official fee or tax on your behalf, you will pay us the amount of the official fee or tax."

The Town of North Providence assessed the motor vehicle property taxes on the leasing company, which passed those charges along to the consumer. The monthly lease statement showed 7 percent sales tax on the entire bill, including the portion listed as property tax.

The consumer asked the Tax Division for a refund of the portion of the sales tax that was levied on the property-tax portion of the bill. The consumer argued, in part, that the tax is really a pass-through to the consumer, and that the lease agreement does not expressly state that the consumer is obligated to pay sales tax on property tax.

Rhode Island General Laws and tax regulations say that sales tax is applied to the gross receipts of a retailer.

For the property tax to be excluded from the sales price for purposes of the sales tax, the property tax would have to be legally imposed directly on

the consumer and be separately stated on the bill.

Hearing Officer Warren, citing RIGL § [44-18-12](#), determined that the property tax is not legally imposed on the consumer.

She also found that the property tax is included in the sales price and, therefore, is itself subject to the sales tax.

Warren denied the consumer's request for a refund; Sullivan on September 5 adopted the hearing officer's decision and recommendation.

- [Final Decision and Order No. 2012-11](#)

DECLARATORY RULINGS ON SALES TAX, ESTATE TAX

Sales Tax

The Tax Division issued a Declaratory Ruling involving manufacturing exemptions and the sales tax. The agency previously ruled that the process of creating asphalt for resale is deemed to be manufacturing. Thus, the tangible personal property and utilities used to manufacture the asphalt are exempt from sales and use tax under Rhode Island General Laws (RIGL) § [44-18-30\(7\)](#). Also, the machinery and equipment and related items used to manufacture the asphalt are exempt from sales and use tax under RIGL § [44-18-30\(22\)](#).



The taxpayer asked if the tangible personal property, utilities, and machinery and equipment and related items used in the process of manufacturing asphalt by the taxpayer's subsidiary are exempt from the sales and use tax. Tax Administrator David M. Sullivan on September 21, 2012, ruled that they are exempt.

- Declaratory Ruling No. 2012-01

Estate Tax

The Tax Division issued a Declaratory Ruling involving the application of certain provisions of Rhode Island's estate tax to the surviving spouse of a same-sex couple who had been lawfully married in another state.

At issue in the case was a Rhode Island same-sex couple who had been married in Massachusetts, where state law recognizes gay marriage. When one of the women died, she left her assets to her surviving spouse. The decedent and surviving spouse owned assets jointly with rights of survivorship; the surviving spouse was the beneficiary of most of the decedent's life insurance and retirement assets.

Citing Rhode Island's Civil Unions Act (RIGL Chapter [15-3-1](#)), and Governor Lincoln D. Chafee's [Executive Order 12-02](#), Sullivan on September 21 ruled as follows:

◆ A Rhode Island marital deduction is allowable for property passing from a decedent to his or her same-sex surviving spouse to the same extent that property left

to a surviving husband or wife is allowable as a marital deduction, provided that the requirements of [Internal Revenue Code § 2056](#) (generally involving bequests) are met.

◆ Same-sex spouses are allowed to include in the gross estate of a decedent one-half the value of certain joint property interests in the same manner that a husband and wife are permitted this treatment under Rhode Island law, provided that the interest in the property meets the requirements of IRC § [2040\(b\)\(2\)](#) (involving qualified joint interests).

The ruling applies to partners of a Rhode Island civil union and to couples joined in an out-of-state same-sex marriage.

- Declaratory Ruling No. 2012-02

WALK-IN TAX PREPARATION SERVICE ENDING

Starting in January 2013, the Rhode Island Division of Taxation will not offer free walk-in tax preparation of current-year returns.

The agency is in the process of notifying taxpayers and others about the change --



and is providing them with information about

alternatives, including free tax preparation services throughout the state.

The change at the Tax Division is the result of state budget legislation that was enacted in June 2012.

“We are taking a number of steps to publicize the change and to promote alternative options for people who received the free tax preparation service from us in the past,” said Rhode Island Tax Administrator David M. Sullivan.

The Volunteer Income Tax Assistance program (VITA) and the AARP Tax-Aide program provide free tax preparation at many sites throughout Rhode Island.

In addition, there are many tax preparation services, accounting firms, certified public accountants, public accountants, enrolled agents, and others in the region who prepare returns for a fee.

Among the reasons for the change: an increase in tax refund fraud in recent years throughout the country, at both the federal and state level.

Fighting fraud

Tax Division staff members who formerly were assigned to prepare current-year returns for walk-ins will now be assigned to bolstering the Tax Division’s anti-fraud efforts. This reallocation of resources is expected to result in the halting of about \$1 million in fraudulent claims for refunds.

The change also resolves what could have been viewed by some as a potential conflict of interest: In past years, the Tax Division was, essentially, judge and jury -- preparing returns and then potentially auditing them.

The change also eliminates what could be viewed as unfair competition in the marketplace: In past years, the Tax Division was using taxpayer dollars to provide a free service to walk-ins -- the same service that a number of for-profit and not-for-profit organizations were providing at the same time.

With the change, the Rhode Island Division of Taxation follows reductions in service at the Internal Revenue Service and at a number of other states.

The Tax Division has already begun getting the word out about the change. The

Clip and save:

WHERE TO GET YOUR TAXES DONE

There are many locations in Rhode Island that provide free tax preparation service:

- ◆ For information about obtaining free tax preparation at a location near you, contact United Way of Rhode Island’s helpline by calling 2-1-1. (It’s a toll-free call; just dial the three numbers: 211.) Or visit www.211ri.org.
- ◆ Free tax preparation is offered by the Volunteer Income Tax Assistance (VITA) program. To find a VITA site, call toll-free at 1-800-906-9887, or use this website: <http://www.irs.gov/Individuals/Find-a-Location-for-Free-Tax-Prep>
- ◆ Free tax preparation is offered by the AARP Tax-Aide program. To find a site, call toll-free at 1-888-227-7669, or visit: www.aarp.org/taxaide (AARP’s Tax-Aide site locator information will be available from late January through April 15th.)

agency has sent personnel to a number of local forums to let stakeholders know about the change.

Spreading the word

In addition, the Tax Division has begun preparing for a mass mailing specifically to those who used the walk-in service in the last filing season.

The mailing lets them know that the service is no longer available. The mailing also advises them where they can obtain information about the many free tax preparation services that are offered each season throughout the state. The postcards are to be

mailed well before the filing season begins, to give taxpayers plenty of time to plan ahead.

In addition, the agency plans to send delegations to the providers of free tax preparation services to let them know about the change and answer any questions they may have.



Although the Tax Division will no longer prepare taxpayers’ current-year tax returns, the agency will continue to provide certain taxpayer services on a walk-in basis, including disbursing tax forms, answering questions, and accepting payments.

REGULATORY UPDATE:

TAX DIVISION ISSUES NEW REGULATIONS

The Rhode Island Division of Taxation has issued new regulations, most of them involving provisions of state tax law that took effect October 1, 2012.

As part of the process, the Tax Division held a public hearing August 23 at One Capitol Hill, Providence.

The meeting, which lasted more than two hours, was attended by nearly 40 business owners, lawyers, trade group representatives, tax officials, and others.

In response to testimony presented at the hearing, and public comments submitted to the Tax Division, the agency made some adjustments to the proposed regulations, then posted them as final.

They include the following:

Taxicabs

[SU 12-151](#) relates to the extension of Rhode Island’s 7 percent sales and use tax to certain taxi, limousine, charter bus, and other ground passenger transportation services, effective October 1, 2012.

Pet services

[SU 12-152](#) involves the extension of the sales tax to pet care services (except veterinary and testing laboratories services), effective October 1, 2012.

Clothing, footwear

[SU 12-13](#) details the extension of the sales tax to clothing, including footwear, with

a retail price of more than \$250 per item. (Only the amount above the \$250 threshold is subject to the tax.)

Combined reporting

The Tax Division also amended [CT 12-15](#), its regulation on *pro forma* combined reporting. The amendment reflects minor changes, such as the title of a new form for

requesting filing extensions.

Tax repeal

The Tax Division also repealed [SU 11-150](#), its regulation regarding the tax on package tours and scenic and sightseeing transportation services. The agency repealed the regulation because the tax itself was repealed, effective July 1, 2012.



Public hearing

Nearly 40 business owners, trade association representatives, tax officials, and others attended the Tax Division’s August 23 public hearing on proposed regulations. The Tax Division subsequently made changes to some of the regulations based on the testimony of taxpayers and others.

SCHOLARSHIP CREDIT CONTRIBUTIONS DUE IN NOVEMBER

For those entities who applied and were approved in July 2012 for the [Credit for Contributions to Scholarship Organizations program](#), the first-year contribution is due by November 28, 2012.

Entities applied and were approved for either one- or two-year commitments.

The first-year contribution must be paid by November 28, 2012. The second-year contribution must be paid by November 28, 2013 (for entities approved for a two-year commitment).

In addition, for those entities who applied and were approved in July 2011 for a two-

year commitment, the second-year contribution must be paid by November 25, 2012.

Once a contribution has been made, apply for your credit certificate by submitting a CPA certification of your contribution to Donna Dube at the Division of

Taxation. Upon receipt of the CPA certification, a certificate will be prepared and mailed to the entity.

For more information, contact Donna Dube at the Tax Division at (401) 574-8903 or Donna.Dube@tax.ri.gov



YOUR WINDOW OF OPPORTUNITY IS OPEN

RHODE ISLAND TAX AMNESTY Visit www.TaxAmnesty.ri.gov for more information.

NEW RHODE ISLAND TAX LAWS TAKE EFFECT

Some key changes involving Rhode Island's 7 percent sales and use tax took effect on October 1, 2012. The changes come as the state marks the 65th anniversary of the statewide sales tax. The changes include the following:

- ◆ The tax now applies to clothing, including footwear, priced at more than \$250 per item. Only the increment above \$250 is taxed. So for a \$275 suit, the tax rate applies only to \$25, resulting in a tax of \$1.75. Please see [Notice 2012-10](#) and [Regulation SU 12-13](#) for details.

- ◆ The tax now applies to taxicab services, limousine services, charter bus services,



(Photo by Michael Rooney / Governor's Office)

Amnesty

Rhode Island Revenue Director Rosemary Booth Gallogly helped launch the state's tax amnesty program, which was part of a new law enacted in June 2012.

and other transit and ground transportation services. Interstate transportation and certain

other transportation services are exempt from the tax. See [Notice 2012-08](#) and [Regulation 12-151](#) for details.

- ◆ The tax applies to pet care services – including boarding, grooming, sitting, and training pets. Veterinary and testing laboratories services are exempt. Please see [Notice 2012-09](#) and [Regulation SU 12-152](#) for details.

“We’ve worked closely with retailers, accountants, business groups, and others to get the word out about these changes,” said Rhode Island Tax Administrator David M. Sullivan. “We received a lot of cooperation, and are grateful to stakeholders for helping us work through this.”

The changes were in a budget bill enacted in June 2012. Their effective date was postponed until October 1, 2012, to allow time for implementation. As a result of the changes, some businesses are now considered retailers under state law, so they must register with the Tax Division, pay the annual \$10 sales tax permit fee, and file sales and use tax returns, said Peter McVay associate director of revenue services. The Tax Division held meetings in recent months throughout the state with retailers, practitioners, and others to answer their questions about the changes.

Retailers and consumers who have questions about the sales tax changes may call the Tax Division's Excise Tax section at (401) 574-8955.

REMINDER ON LIQUOR LICENSE RENEWALS

Liquor licenses are issued by cities and towns.

But to get your liquor license renewed, you must obtain a certificate of good standing from the Rhode Island Division of Taxation – which means you must be current on your state taxes.

Because all liquor licenses expire with local cities and towns on November 30, 2012, now's the time to take the necessary steps toward license renewal.

The Tax Division recently mailed out certificate of good

standing/ liquor license renewal applications. They were due by September 14, 2012.

All applications must be completed and returned on time in order for the Tax Division to process the applications and issue certificate of good standing clearances to local city clerks' and town clerks' offices by November 30, 2012.

Taxes must be paid

If you owe back taxes to the state, you must pay them in order to obtain a certificate of good standing and get your liquor license renewed.

Some licensees wait until the last minute to renew, which can result in long lines and wait times in late November. To avoid potential snags:

- ◆ Apply for renewal, and pay your back taxes, well in advance of the license-renewal deadline – don't wait until late November;

- ◆ When paying your back taxes, keep in mind that the Tax Division accepts only certified bank checks or money orders.

- ◆ Contact the Tax Division's



Compliance & Collections section at (401) 574-8941 from 8:30 a.m. to 4 p.m. business days if you have any questions or need additional information.

PRACTITIONERS' CORNER:

QUESTIONS & ANSWERS ON STATE TAXES

Q: I have commercial real estate that I hold within a single-member limited liability company (LLC). The LLC is a pass-through entity; items of income and expense flow through to me and are reported on Schedule C of my U.S. Form 1040.

I recently received notification from the Tax Division that the LLC must pay a \$500 annual filing fee. The Tax Division also said I owe the tax going back several

years **Might this situation qualify for amnesty?**

A: Yes. If you pay your delinquent state tax through Rhode Island's tax amnesty program, the Tax Division will waive penalties and reduce interest by 25 percent. And if you clear up all your state tax delinquencies through amnesty, the Tax Division won't block your attempts to renew your driver's license, motor vehicle registration, professional license, or sales and use tax permit.

The amnesty program began September 2, 2012, and runs through November 15, 2012. See the tax amnesty program's website to learn more about the amnesty and how it can apply to you:

www.TaxAmnesty.ri.gov



Q: I have a client that owns a pet boarding business. I understand that grooming will be subject to sales tax under the new law, but is boarding taxed, too?

A: Yes, but there is an exception.

As a result of the new law, Rhode Island's 7 percent sales and use tax now applies to pet care services – except veterinary services and testing laboratories services.

Thus, pet care services such as shampoo, nail clipping, grooming, and boarding are all taxable.

However, medical-related boarding services provided by a veterinarian are not taxable. (So if your dog must stay at the vet's for an operation and recovery, and the vet charges you for boarding services, those services are not taxable. But if you board your dog at a kennel while you take vacation, that is subject to tax.)

Q: I have a client who earns money dog-walking. Is that subject to the tax?

A: Yes. Dog-walking is a pet care service. As a result, as of October 1, 2012, it is subject to the sales tax.

Q: Regarding the corporate e-file mandate that will be effect starting January 1, 2013: Does this apply to amended returns or only originally filed returns?

A: Original returns only.

Q: Does the corporate e-file mandate apply to corporations, or just to paid preparers?

A: It applies only to paid preparers who prepared more than 100 returns in the prior tax year. It does not apply to individual corporate taxpayers. Thus, if XYZ Corp. files its own return instead of going through a paid preparer, XYZ Corp. would not be subject to the corporate e-file mandate; XYZ Corp. could, technically, file a paper return (although we strongly urge all taxpayers to e-file because it's faster, more accurate, saves the Tax Division in printing and postage costs, and generates refunds more quickly for taxpayers).

Q: Will I be able to e-file my client's Form RI-1041 fiduciary income tax return this coming filing season?

A: No, due to system limitations. The Tax Division may be able to accept e-filed fiduciary returns starting in early 2014.

Q: I remit my sales and use tax electronically, by electronic funds transfer – debit (EFT debit). Must we still file a monthly sales tax return (Form T-204M)?

A. No. If you pay electroni-

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.

cally, there's no need to file the paper return. That's true whether you pay monthly or quarterly.

Q: The next annual sales tax reconciliation will be due by January 31, 2013. Must all retailers file the annual reconciliation – including those who pay sales tax quarterly and those who pay sales tax monthly?

A: Yes. There's no longer a quarterly reconciliation; everyone who is registered for a sales tax permit must file the annual reconciliation.

(Please turn to page 12)

VOLUNTARY DISCLOSURE VS. TAX AMNESTY

While Rhode Island's 75-day tax amnesty program runs through November 15, 2012, the Rhode Island Division of Taxation continues to operate its ongoing Voluntary Disclosure Program.

In other words, both programs are running concurrently – and during that time, practitioners may want to discuss with clients the potential benefits and drawbacks of each program. Among the differences:

◆ Through tax amnesty, eligible taxpayers may receive a 25 percent reduction in interest charges. The Voluntary Disclosure Program does not reduce interest owed.

◆ For qualifying taxpayers in the Voluntary Disclosure Program, the Tax Division agrees to limit the audit-related "look back," generally to a maximum of three years. The tax amnesty program does not offer this feature.

Depending on the client, the limit on the audit-related "look back" may have some appeal,

said Peter McVay, associate director of revenue services, who oversees the program. "We won't go back beyond a certain point for examination and filing purposes," he said.

Although the limit on the audit-related "look back" is usually the three previous years, there are exceptions: It may not apply if the taxpayer is currently registered with the Rhode Island Secretary of State

or is organized/incorporated in Rhode Island, or if the taxpayer has been living in Rhode Island. Also, the limit shall not apply for taxes collected (trust funds). Also keep in mind that the tax amnesty program is comparatively broad in scope, whereas under the Voluntary Disclosure Program, a qualifying taxpayer cannot have been previously contacted by the Tax Division, cannot be registered with the Tax Division for the

tax type involved for the disclosure period, and cannot have collected any taxes included in the disclosure.

Each program has its advantages; practitioners should review each before recommending one, McVay said. Practitioners should also contact the Tax Division for additional details about each program. (Contact information is provided in the table below).

	Voluntary Disclosure Program	Tax amnesty program
Duration:	Ongoing	ends November 15, 2012
Interest abatement:	None	25 % reduction
Penalty abatement:	Yes	Yes
Waive civil, criminal prosecution:	Yes	Yes
Limits audit-related "look-back":	Yes*	No
Application process:	Submit letter	Use amnesty application form
Website:	http://www.tax.ri.gov/misc/voluntary_disclosure.php	http://www.TaxAmnesty.ri.gov
Phone number:	(401) 574-8922	(401) 574-8650
* Limit on audit-related "look back" period is usually the three previous years, with some exceptions: Limit may not apply if taxpayer is currently registered with Rhode Island Secretary of State or is organized/incorporated in Rhode Island, or if taxpayer has been living in Rhode Island. Limit shall not apply for taxes collected (trust funds).		

PRACTITIONERS' CORNER:

QUESTIONS & ANSWERS (CONTINUED FROM PAGE 11)

Also, please keep in mind that the annual sales tax reconciliation return is in addition to the sales tax return. They are two separate things. File the sales tax return by its normal due date by reporting the amount of sales tax due with payment. File the separate annual reconciliation by January 31.



Q: Everybody had to file the annual sales tax recon-

ciliation on paper in January 2012, on Form T-204R-Annual. Will we be able to file the annual reconciliation electronically for the January 31, 2013, deadline?

A. Yes. In fact, e-filing became available shortly before the last deadline – too late for some, but in time for others. For the coming deadline of January 31, 2013, e-file will be available for everyone.

Keep in mind that you may use the state website to file your annual sales tax reconciliation online if you are currently registered to use the website to make electronic payment of sales and use tax via the ACH debit option.

If you're not registered, you can still sign up to create your own Rhode Island business tax electronic funds transfer (EFT) filing account. Click here to start the registration process. Please note that the online filing

feature is only for filers who choose the ACH debit option. You can use the online filing feature if you have a zero balance or balance due. (If you have a balance due, the system will prompt you for payment.) If you're due a refund, you can still use the online filing feature, but you won't be able to complete the filing; you'll have to print out your receipt at the end and mail it in. (The system provides details.)

NEWSLETTER POLICY

Rhode Island Tax News is a newsletter from the Rhode Island Department of Revenue's Division of Taxation. It is typically published each quarter. Its purpose is to provide taxpayers and tax professionals with general information regarding Rhode Island tax laws, regulations and procedures. It is neither designed nor intended to address complex issues in detail. Nothing contained in this newsletter in any way alters or otherwise changes any provisions of the Rhode Island General Laws, regulations of the Tax Division, or formal rulings. The Tax Division is at One Capitol Hill, Providence, RI 02908. Its website is www.tax.ri.gov.

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COMMENTS AND SUGGESTIONS

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

BACK ISSUES

Back issues of *Rhode Island Tax News* are archived on the Tax Division website:

<http://www.tax.ri.gov/newsletter/index.php>

WAGE AND TAX REPORTS:

EMPLOYER TAX DEADLINE IS OCTOBER 31

October 31 is the deadline for employers to file their third wage and tax report for 2012 and pay the tax due.

About 32,000 employers have until midnight on October 31, 2012, to file and pay their state unemployment insurance tax (also known as the Employment Security, or ES, tax) and Job Development Fund tax, and to file and remit the amount

of Rhode Island Temporary Disability Insurance (TDI) tax withheld from employees' wages.

New wage base

This will be the third payment of state unemployment insurance tax using [the new taxable wage base that applies for 2012](#).

To file employer tax reports, tax payments, and wage reports, some

employers will use the paper version of [Form TX-17](#) as updated for 2012. For more information about filing and paying online, [click here](#).

Electronic submission

Employers with 25 or more employees must submit wage data electronically. For more information, call the Tax Division's Employer Tax section at (401) 574-8700 (select option 2).



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