

Tax-filing season opens in Rhode Island

New, extended tax breaks apply for many individuals, businesses

PROVIDENCE, R.I. – The Rhode Island Division of Taxation today began accepting electronically filed personal income tax returns for tax year 2015 – signaling the formal start to tax-filing season.

“We’re now open for business to receive e-filed Rhode Island personal income tax returns,” said Acting Tax Administrator Neena S. Savage. “Whenever taxpayers have all of the documentation they need to file a complete and accurate return, we’re ready to receive their returns,” she said.

The Division of Taxation today started accepting e-filed resident and nonresident personal income tax returns – including returns that have a claim for a property-tax relief credit on Form RI-1040H.

Also today, the Division of Taxation began accepting and processing paper returns, but Savage urged taxpayers and preparers to file electronically because e-filing results in fewer errors, faster processing, and swifter issuing of refunds. Also, only e-filers have the option to have their refunds deposited directly into their bank or credit union accounts; the direct deposit option is not available to paper filers. Overall, the Division of Taxation expects to process more than 600,000 personal income tax returns this season.

What’s new

Many individuals and businesses will see some changes when they prepare their Rhode Island returns this season, covering tax year 2015. For example:

- The filing deadline for personal income tax returns this season is April 18.
- Those who use software to prepare returns will be asked to include a taxpayer’s driver’s license information.
- Many low-income taxpayers will see additional tax relief through a higher property-tax relief credit and a change in the formula for Rhode Island’s earned income credit.
- Rhode Island’s corporate income tax rate has been reduced.
- Rhode Island’s franchise tax has been eliminated.
- C corporations this filing season will first encounter a change in the apportionment formula, as well as mandatory unitary combined reporting.
- Tax relief is available for small businesses, schoolteachers, and those who pay college tuition.

Filing deadline

Normally, the filing deadline is April 15. But that falls on a Friday this year, which is Emancipation Day in Washington, D.C. As a consequence, the federal filing deadline has been moved to the following business day – which is Monday, April 18, 2016. Because Rhode Island follows federal rules in this regard, the deadline for filing and payments for tax year 2015 will also be April 18, 2016. “As a result, those who wait until the last minute to file will have a bit of a reprieve,” Savage said.

Driver’s license

Those who prepare Rhode Island personal income tax returns on computer this filing season will be asked to enter their driver’s license number as part of the tax preparation process.

“This is another way to verify your identity and the validity of your return before the processing of the return is completed,” Savage said. “It is part of a coordinated and collaborative effort among the states, the Internal Revenue Service, tax software providers, and others to help combat tax refund fraud. It is part of a new set of security safeguards that are in place for this filing season that will also help protect taxpayers from identity theft,” she said.

“This will be another layer of protection because identity thieves may already have your name and Social Security number, but perhaps not your driver’s license number. The states requesting this information have the ability to match driver’s license information and other identifying records to help confirm your identity,” Savage said.

Tax software will prompt you for your driver’s license number. The information will be transmitted only in electronically filed returns; it will not appear on paper returns. It will also be safeguarded, along with the rest of your tax return information.

The return will not be rejected if a taxpayer does not have a driver’s license number, or does have one but does not provide it, she said. “However, providing the information can only help process the return more quickly, and can help us combat tax refund fraud and identity theft, so we ask all taxpayers and preparers for their patience and assistance in this effort, which helps all of us,” Savage said.

Help for low-income taxpayers

The Rhode Island property-tax relief credit, which is claimed by eligible taxpayers on Form RI-1040H, has risen to \$320 this filing season, an increase of \$15, or nearly 5 percent.

There is also a change in the Rhode Island earned income credit – a tax break intended to help the working poor. The calculation of the credit is more straightforward this filing season, and the credit is fully refundable. The impact, in dollars and cents, will depend on the claimant’s circumstances. However, many claimants will see an increase in the amount of their credit.

“These two changes – involving the property-tax relief credit and the earned income credit – will provide some welcome relief for our state’s low-income taxpayers and help them get a leg up,” Savage said.

Tax relief for businesses

Sweeping changes to the Rhode Island corporate tax structure were enacted in 2014, and took effect for tax years beginning on or after January 1, 2015. As a consequence, taxpayers and preparers will first encounter these changes this filing season, as they prepare their tax returns covering tax year 2015.

“Businesses will see some helpful tax relief, while some businesses will also first encounter some changes in the way that their tax information is computed,” Savage said. Among the changes is a 22.22 percent reduction in Rhode Island’s corporate income tax rate, to 7 percent. The drop of two percentage points gave Rhode Island the distinction of having the lowest marginal corporate income tax rate in New England for 2015.

Businesses and their tax advisers will also find that the Rhode Island franchise tax has been eliminated. Rhode Island eliminated its franchise tax (sometimes called the capital stock tax or balance sheet tax) for tax years beginning on or after January 1, 2015.

Changes for C corporations

Also new for this filing season, as a result of changes that took effect for tax years beginning on or after January 1, 2015, businesses treated as C corporations for federal income tax purposes will:

- Use a single factor – sales (also known as total receipts or gross receipts) – for apportionment purposes. Taxpayers other than C corporations will continue to use three-factor apportionment (including sales, property, and payroll).
- See a change in the sourcing method for gross receipts from transactions other than sales of tangible personal property. Such entities will use market-based sourcing. Entities other than C corporations will continue to use the cost-of-performance method.
- Must report on its Rhode Island return not only its own income, but also the combined income of the other corporations, or affiliates, that are part of a combined group under common ownership and part of a single business enterprise – a “unitary” business.
- Have an extra month when filing on extension. The extended due date will be seven months after the original due date, instead of six months. Thus, for a calendar-year C corporation filing a Form RI-1120C on extension – whether as stand-alone entity, or as part of a combined group – the deadline will be October 17, 2016. (The original due date is still March 15.)

Section 179; college tuition; schoolteachers

Eligible Rhode Island businesses and individuals will receive a double-tax benefit for certain expenses as a result of legislation approved by Congress and signed into law by President Barack H. Obama in December 2015.

SECTION 179

The new law permanently increased the amount that small businesses can deduct all at once in any given year for acquiring certain types of property. Because Rhode Island tax law is linked to federal tax law in this regard, the higher deduction limits will apply not only for federal tax purposes, but also for Rhode Island tax purposes. Thus, if a business claims the deduction at the federal level, the business will automatically qualify for the same deduction for Rhode Island tax purposes.

The deduction involves Section 179 of the Internal Revenue Code and is known as the “Section 179 deduction.” In general, it applies to “qualifying property” – which means depreciable tangible personal property that is purchased for use in the active conduct of a trade or business. “Qualifying property” also includes off-the-shelf computer software and qualified real property.

The new federal law raises, to \$500,000 from \$25,000, the annual Section 179 expensing limit permanently -- for tax years beginning after December 31, 2014. The \$500,000 limit applies for both federal and Rhode Island tax purposes. The phase-out limit, which was \$200,000, is now \$2 million for tax years beginning after December 31, 2014, for federal and Rhode Island tax purposes.

TUITION AND FEES

The federal deduction for qualified tuition and related expenses for higher education, under Internal Revenue Code section 222, is extended through 2016. (It had expired for taxable years beginning after December 31, 2014.)

If someone qualifies for the deduction at the federal level, it will reduce that person’s federal adjusted gross income – and will automatically reduce the amount of income taxed by Rhode Island, thus saving that person federal and Rhode Island taxes. The maximum federal deduction is \$4,000. Income limits apply.

EDUCATOR EXPENSE DEDUCTION

A federal deduction of up to \$250 for certain expenses of elementary and secondary schoolteachers, under Internal Revenue Code section 62, was available for taxable years beginning prior to January 1, 2015. Under the new law, the provision is permanently extended. In general, the deduction is for books, supplies, computer equipment (including related software and services) and other equipment, and supplementary materials used by the eligible educator in the classroom. If someone qualifies for the deduction at the federal level, it will reduce that person’s federal adjusted gross income – and will automatically reduce the amount of that person’s income taxed by Rhode Island, thus saving that person in federal and Rhode Island taxes.

Filing business returns

The Division of Taxation will soon begin accepting and processing e-filed and paper business returns. “We have an annual process of testing business returns for e-file purposes. Once we have completed this year’s process of testing, we will begin accepting e-filed business returns and will let software providers and tax preparers know. Preparers should also check the updates from their software

providers to see if the particular tax-preparation program they use has been tested and accepted for Rhode Island e-file purposes,” Savage said.

Paper returns can be filed, but Savage urged preparers and taxpayers to take advantage of the many benefits of filing electronically. She also issued a reminder about Rhode Island’s corporate e-file mandate, which applies to paid preparers (though not to corporations themselves).

Rhode Island Division of Taxation electronic filing program - overview	
<i>The Rhode Island Division of Taxation this season will be set up to receive the following returns under its electronic filing program:</i>	
Form RI-1040	Resident personal income tax return
Form RI-1040NR	Nonresident personal income tax return
Form RI-1120C	Business corporation tax return – C corporations
Form RI-1120S	Business corporation tax return – S corporations
Form RI-1065	Return for partnerships, LLPs, LPs, LLCs
<small>Preparers should check with their tax-preparation software provider to see if their programs have been tested and accepted for Rhode Island’s e-file program. Form RI-1065 is also for general partnerships and single-member limited liability companies. Form RI-1041 – the income tax return filed by fiduciaries for certain trusts and estates – must be filed on paper for tax year 2015.</small>	

For more information

A number of tax forms, instructions, and related schedules and other materials are now available online at the Division of Taxation website: <http://www.tax.ri.gov/>

To order forms, call (401) 574-8970 (but bear in mind that forms and instructions are on the agency’s website at <http://www.tax.ri.gov/>). Or email: tax.forms@tax.ri.gov

The Division of Taxation office – where taxpayers may pick up forms and instructions, or make payments or ask questions – is at One Capitol Hill, Providence, R.I. The office is typically open to the public from 8:30 a.m. to 3:30 p.m. business days.

Taxpayers with questions may call the Division of Taxation at (401) 574-8829 (choose option 3) from 8:30 a.m. to 3:30 p.m. business days, but keep in mind that call volume is high during filing season and callers may encounter delays. “Your best bet is to use our website to view and download forms, instructions, schedules, and other helpful information,” Savage said. For a complete listing of contact information for the Division of Taxation, use the “Contact Us” section of the website: <http://www.tax.ri.gov/contact/>

Newsletter for filing season

The Division of Taxation has posted a special edition of its quarterly newsletter, *Rhode Island Tax News*, which provides more information about the filing season. The 13-page edition is available online: <http://go.usa.gov/cQpMj>.

The newsletter also includes information about filing the annual sales tax reconciliation, which is due on or before February 1, 2016. Legislation enacted in 2015 extended the state’s sales tax and 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 2015 must file the annual reconciliation, too. The newsletter includes filing tips for these filers.

- The form can be filed online: <https://www.ri.gov/taxation/business/index.php>
- For the paper version of the form: <http://go.usa.gov/cQ7bj>

Finding a tax preparer

Although the Rhode Island Division of Taxation does not prepare tax returns on a walk-in basis, many certified public accountants, enrolled agents, public accountants, and other preparers are available throughout the state.

The IRS website includes information on choosing a tax professional, as well as a public directory of certain tax professionals to help taxpayers determine return preparer credentials and qualifications. The directory is a searchable, sortable database with the name, city, state and ZIP code of credentialed return preparers: <http://go.usa.gov/cQ7WT>

Free tax assistance

Many locations in Rhode Island will prepare personal income tax returns -- and property-tax relief claims on Form RI-1040H -- all at no charge for eligible taxpayers. To find a volunteer tax preparation site near you:

- Call the United Way of Rhode Island's helpline at 211.
- Call the VITA program toll-free at 1-800-906-9887.
- Call the AARP Tax-Aide program toll-free at 1-888-227-7669.

For more information, see the IRS website, which includes links for finding nearby volunteer tax preparation sites: <http://go.usa.gov/cQ7Zw>

Forms 1099-G, 1099-INT

The Division of Taxation this week plans to start mailing Forms 1099-G and 1099-INT to taxpayers. Neither form is a bill; each is for information purposes. In general, Form 1099-G shows the amount of Rhode Island personal income tax refund certain taxpayers received; Form 1099-INT reports interest a taxpayer earned on a Rhode Island income tax refund. The forms are typically used to help prepare one's tax returns.

Looking ahead

The Division of Taxation has begun mailing out 39,471 copies of Form RI-1040ES for the 2016 tax year. Taxpayers use the coupons on the form to make quarterly estimated payments of Rhode Island personal income tax. The first such payment is due on or before April 18, 2016.