

# RHODE ISLAND TAX NEWS

A NEWSLETTER FOR TAXPAYERS AND PREPARERS

APRIL/MAY/JUNE 2013

## FOR EXTENSIONS, A ‘PROPER’ ESTIMATE

To obtain an automatic six-month extension from the usual mid-April filing deadline, you must make a proper estimate of your Rhode Island personal income tax – and pay that amount (if any) at the time you file for the extension. But what is a “proper” esti-

mate? The Rhode Island Division of Taxation is putting into print the position it has long taken on this issue: A proper estimate essentially means paying in at least 80 percent of the balance due (in the form of withholding, estimated payments, the payment filed

with the extension – or some combination).

What if you fail to make a proper estimate when you file for a six-month extension? You won’t face any problems right then because the extension is automatic.

*(Please turn to [page 2](#))*



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

**Outreach:** CPAs and others attended a recent outreach session sponsored by the Rhode Island Society of Certified Public Accountants. Tax Division presenters included Peter McVay (foreground, left) and Matthew Lawlor (foreground, right).

## TIME TO CHECK IF YOU’RE DUE A TDI REFUND

Were you eligible this year for a refund of your Rhode Island personal income tax?

Now may be a good time to see if you’re eligible for a refund of your Rhode Island temporary disability insurance tax (TDI), while your

taxes are still on your mind and your tax records handy.

Start by checking your paystubs for last year – especially your final paystubs for 2012. If you paid more than \$720 in TDI tax last year, you paid too much. You should therefore file

for a TDI tax refund.

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

*(Please turn to [page 4](#))*

### HELP FOR CITIES:

- The Rhode Island Division of Taxation has officially kicked off a refund offset program intended to help cities and towns.
- The program has generated more than \$214,000 for East Providence so far this year.
- Woonsocket, which joined the program more recently, has received more than \$22,000 so far this year.
- Please see [page 13](#) for details.

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## FOR EXTENSIONS, A ‘PROPER’ ESTIMATE (CONTINUED FROM PAGE 1)

But you will face consequences later on – by mid-October, when the return that’s on extension is finally due. At that point, if the balance due is greater than 20 percent of your total Rhode Island personal income tax liability, you’ll be penalized. In other words, if the amount you paid in (through estimates, withholding, payment with the extension, or some combination) was less than 80 percent of your tax liability, your estimate will not be deemed “proper.” You therefore face steep consequences.

### An example

How does this work? Consider the following example, which uses the following facts:

- ◆ You made total estimated payments in 2012 of \$5,000.
  - ◆ In April 2013, you file for an extension. In your filing, you essentially say that you paid in \$5,000 last year, so your Rhode Island personal income tax liability is \$5,000. You have zero balance due.
  - ◆ In October 2013, you file your return for 2012, showing tax liability of \$20,000.
- Because your estimate when

filing for an extension was less than 80 percent of your tax liability, you did not make a “proper” estimate. Thus, the extension is void. As a direct result, you’ll trigger the late-filing penalty (sometimes called the failure-to-file penalty). It be on top of the late-payment penalty and interest assessment.

### Penalties, interest

- ◆ The late-filing penalty is 5 percent of the amount of tax due for each month or part of a month your return is late – not exceeding 25 percent in the aggregate. (In this example, the penalty is \$3,750.)
- ◆ The late-payment penalty is one-half of 1 percent of the amount of tax due for each month or part of month your payment is late – not exceeding 25 percent in the aggregate. (So in this example, the penalty is \$450.)
- ◆ Interest is generally assessed at the annual rate of 18 percent, is assessed until the date you pay the tax, and cannot be abated. (In this example, the interest is \$1,350.)

It is important to note that the Division of Taxation presumes in such cases that the

taxpayer has failed to make a proper estimate. But if the taxpayer can demonstrate reasonable cause, the Division of Taxation can abate penalty (but not interest).

For example, suppose you made the most accurate estimate possible of your tax in April when you filed your return. But in August, you receive a statement showing income from the prior year, credited to you, from a partnership in which you hold a small stake, an event you did not anticipate. If you can prove that you were unaware in April of the event, and unaware you were going to receive a statement about it four months later, you may be able to rebut the presumption – and thereby avoid penalty (but not interest).

In early 2013 the Division of Taxation began revising a regulation on the subject, with the goal of posting a final regulation sometime in the second quarter of 2013. The agency is also reaching out to practitioners in order to provide reminders about the agency’s longstanding position on the making of a proper estimate in connection with filing for an extension.

“ALTHOUGH OUR POSITION ON THIS MATTER HAS NOT CHANGED, WE WANT TO PUT IT IN WRITING SO THAT IT IS ABSOLUTELY CLEAR – TO PRACTITIONERS AND TAXPAYERS ALIKE.”

-DAVID M. SULLIVAN  
TAX ADMINISTRATOR

### POINTS TO REMEMBER ABOUT FILING FOR AN EXTENSION

*Seeking an extension from the April 15 deadline for Rhode Island personal income tax?*

*If you’ll have no balance due, don’t file Form RI-4868, but do attach a copy of your federal*

*extension application when you file your Rhode Island return by the October 15 deadline.*

*If you’ll have a balance due, you must file Form RI-4868. And it’s best to do so on paper, so you can*

*e-file the return itself by the October 15 deadline. (If you’ll have a balance due in April and pay it by credit card, you don’t have to file a Form RI-4868. A third-party fee is charged when you pay by card.)*



## BUSY SEASON FOR PROCESSING BRANCH

For the Rhode Island Division of Taxation's Tax Processing branch, it is harvest time.

Among its many duties, the Tax Processing branch handles the processing and data entry of tax returns.

Such tasks are performed at various times throughout the year. But the filing season for personal income tax, which generally runs from January to about mid-April, is by far the busiest season of all. Returns pour in, and it's up to the Tax Processing branch to handle them all – whether they're filed electronically or on paper.

The Tax Processing branch is

responsible for the overall management and security of a high volume production processing operation that serves all sections in the Division of Taxation.

Among other things, the branch handles each year about 600,000 personal income tax returns, 75,000 business returns, 35,000 sales tax accounts, and 30,000 employer accounts. The branch is divided into five units:

- ◆ Accounting, which handles the daily recording of all receipts, adjustments and refunds of all taxes and fees. The unit is also responsible for the preparation and distribution of numerous reports to various

agencies.

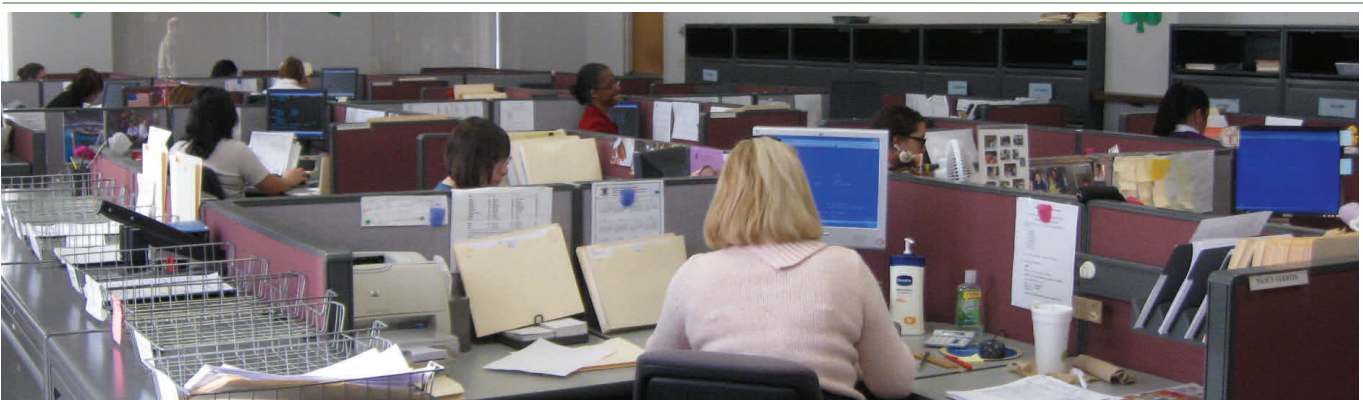
- ◆ Cashier, which receives and accounts for payments made by cash and check. The Cashier unit reconciles all transactions and prepares the daily bank deposit. Any bank corrections are received and researched by the Cashier unit in order to adjust taxpayer accounts.

- ◆ Primary Processing receives and sorts all the Tax Division's incoming mail; sorts all payments and tax returns for processing; coordinates deposits with the Division's lock box operations; prepares batches for data entry processing; and maintains the batch inventory system.

- ◆ Data Entry manually enters all return data and return corrections into the mainframe tax system.

- ◆ Registration processes all permits and license applications received by the Division of Taxation. The unit also works with taxpayers to ensure all necessary permits and applications are completed for their particular line of business.

"Everything starts and ends in Processing," said the branch's chief, Susan M. Galvin. "It's the center of the spoke." The branch has 34 full-time employees and 18 seasonal workers.



**Busy Time:** It's busy season for the Rhode Island Division of Taxation's Tax Processing branch. Mail must be sorted (top photo), and figures and other information must be entered into computer systems (bottom photo).

## CHECK IF YOU'RE DUE TDI REFUND (CONTINUED FROM PAGE 1)

To claim your refund, use Form TX-16, "Claim for Refund of Temporary Disability Insurance Tax." It's available on [this Division of Taxation website](#).

If you worked for a single employer last year, odds are that the employer withheld the proper amount.

But if you worked for two or more employers last year – at the same time, or in succession – you may have overpaid in TDI tax. That's because there's no way for one employer to know how much in TDI tax the other employer withheld.

### Maximum tax

Each employer withheld TDI tax last year according to the same formula: 1.2 percent of your first \$60,000 in wages for that employer. But no employee should have paid more than \$720 in overall TDI tax last year. If you did, file the Form TX-16 for a refund. Instructions are on the form.

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

- ◆ TDI applies to each person, individually. So if you're married and trying to figure out if you're owed a TDI tax refund, count only the TDI tax that you yourself paid. Your spouse will have to do a separate calculation.
- ◆ If you're married, each spouse must file a separate form for a TDI tax refund. (Remember: TDI applies to each person, individually.)
- ◆ Claims for TDI tax refunds can be filed only on paper, not electronically. The mailing address is in the instructions. (TDI tax refunds are issued only by check, not electronically.)
- ◆ For each employer you list on the claim form, you must attach a copy of the Form W-2 wage statement you received from that employer.
- ◆ You may request TDI refunds only for 2012, 2011, and 2010. (Details are on the form.) You must use a separate Form TX-16 for each year for which you claim a refund.

Don't expect to receive your

TDI refund immediately after you file for it. There are reasons it could be delayed.

### Refund processing

For example, TDI refunds for 2012 can't be processed until the Tax Division has received and processed employers' tax and wage reports for late 2012. It can take until early April, depending on the year, to start processing all those employer reports. And so, depending on when you file your claim for a refund, it could take up to 12 weeks until you receive your refund check.

In addition, snags may develop in the processing of your refund claim, issues that will have to be resolved manually – if, for example, a business that employed you last year was bought out by another during the year, or if your employer entered the wrong Social Security number for you on the quarterly tax and wage report. Keep in mind, too, that TDI refunds are subject to potential offset.



### TDI TAX: HOW IT WORKS

The TDI tax has two key components: the tax rate, and the amount of your wages to which that tax rate applies.

For 2012, the tax rate was 1.2 percent.

The tax rate applied to the first \$60,000 of your wages.

Thus, the maximum tax was \$720.

[Click here](#) for information on the maximum tax for 2013 and how it's calculated.

## ABOUT TEMPORARY DISABILITY INSURANCE (TDI)

TDI is a kind of short-term disability insurance program. It generally pays benefits to people who are out of work due to illness or injury unrelated to the job.

You pay taxes, typically through withholding from your paycheck. The money

goes into a trust fund to pay for benefits.

If you work in the private sector in Rhode Island, you probably pay TDI tax. Altogether, about 393,300 workers contribute to the TDI fund.

The [Rhode Island Division of Taxation's Employer Tax section collects TDI tax and issues TDI refunds](#).

The [Rhode Island Department of Labor and Training administers the overall TDI program](#).



**Earned income credit:** In a speech at the Museum of Work and Culture in Woonsocket, Rhode Island Tax Administrator David M. Sullivan encouraged eligible taxpayers to file not just for the federal earned income credit, but also for the Rhode Island earned income credit and statewide property-tax relief credit.

## WHERE TO GET HELP

Volunteer tax preparers throughout the state can prepare and e-file your federal and state tax returns at no charge -- including the forms required for your federal earned income credit, state earned income credit, and state property-tax relief credit. Many sites also let you set up an appointment.

To find a site near you, dial the United Way of Rhode

Island's helpline, at 211. It's a toll-free call; just dial the three numbers: 211. Or [click here](#).

To find a VITA site near you (the Volunteer Income Tax Assistance program), call toll-free at 1-800-906-9887, or [click here](#). For an AARP Tax-Aide program location near you, call toll-free at 1-888-227-7669, or [click here](#).

## PROMOTING A TAX CREDIT AT WOONSOCKET EVENT

Rhode Island Tax Administrator David M. Sullivan took part in an event in Woonsocket to draw attention to the benefits of the earned income credit.

The gathering, at the Museum of Work and Culture, was held at the start of filing season to encourage eligible taxpayers to file for the earned income credit (sometimes called the EITC) - a tax break that helps the working poor.

### Other officials

Among those attending were U.S. Sen. Sheldon Whitehouse, Lt. Gov. Elizabeth Roberts, Woonsocket Mayor Leo Fontaine, Internal Revenue Service Senior Tax Consultant Meg Chevalier, and Anthony Maione, president and CEO of United Way of Rhode Island.

The gathering was part of the IRS's "Earned Income Tax Credit Awareness Day," an outreach campaign aimed at helping millions of Americans who earned \$50,270 or less last year to take advantage of the federal credit.

Sullivan, representing Governor Lincoln D. Chafee, pointed out during his address that people who are eligible for the federal earned income credit should also file for the Rhode Island earned income credit. (In general, the Rhode Island credit is equal to 25 percent of the federal earned

income credit, and 15 percent is refundable.)

Those eligible for the credit may also be eligible for a "rebate" of up to \$300 through Rhode Island's statewide property tax relief credit, Sullivan added.

### Credit partners

Rhode Island Community Action Association (RICAA), the Citizens Bank Foundation, United Way of Rhode Island, and the IRS partnered to launch the public awareness campaign.

The amount of the credit is based on several factors, including the amount of an individual's earnings from wages, self-employment or farming. Generally, taxpayers may be able to claim the credit for the 2012 tax year if their incomes do not exceed the following limits:

◆ \$45,060 (\$50,270 married filing jointly) with three or more qualifying children;

◆ \$41,952 (\$47,162 married filing jointly) with two qualifying children;

◆ \$36,920 (\$42,130 married filing jointly) with one qualifying child; or

◆ \$13,980 (\$19,190 married filing jointly) with no qualifying children.

## APPLICATION PERIOD FOR SCHOLARSHIP CREDIT STARTS JULY 1

The following summary is by Donna Dube, principal revenue agent in the Division of Taxation's Forms, Credits and Incentives area:

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

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



Although the contribution must be made by a business entity, the credit can be used against a variety of taxes, including the business corporation tax, the public service corporation tax, the tax on banks, the tax on bank deposits tax, the tax on

insurance companies, and the personal income tax. (Owners, shareholders, or partners of pass-through entities generally can claim their share of the credit on their Rhode Island personal income tax returns.)

### Application approvals

Applications are approved on a first-come, first-served basis until the credit cap of \$1 million per fiscal year is met. A list of qualified scholarship organizations and other helpful information is available on the program's web

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

The application for the fiscal year that starts July 1 (the 2014 application) will be available in late May or early June.

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

## STATISTICS OF INCOME REPORTS NOW POSTED

The Division of Taxation has posted on its website two sets of Statistics of Income (SOI) reports: one for Rhode Island's personal income tax, another for the state corporate income tax. Both cover tax year 2011.

The reports draw on figures contained in tax returns filed with the Division of Taxation. The reports do not disclose confidential taxpayer information. Rather, they provide aggregate data for a given tax type.

For example, one of the SOI reports for the Rhode Island personal income tax shows how many resident returns were filed for tax year 2011, how much adjusted gross income taxpayers reported in the aggregate, and how much in credits they claimed. The report also breaks down the figures within various income groupings.

This year's SOI reports for the Rhode Island personal income tax are the first to reflect

the sweeping changes to the state's personal income tax system which were enacted in June 2010 and which took effect in January 2011.

The set of corporate SOI reports shows the total number of returns for tax year 2011, how much in federal taxable income businesses reported, how much in deductions were claimed, and how much in credits were claimed. The corporate SOI set also shows how many business entities paid the corporate minimum tax of \$500.

In addition, the corporate SOI set provides separate data for C corporations, subchapter S corporations, and limited liability companies (LLCs).

The Tax Division posts the reports each year. [Click here](#) to read them. (A screenshot appears at left.)

### FILING DEADLINE FOR ESTIMATED TAXES

If you're making estimated payments of Rhode Island personal income tax this year, don't forget that your second installment is due on or before June 17, 2013.

The installment would normally be due June 15, but that falls on a Saturday this year. So the deadline for filing and payment will be the following Monday, June 17, 2013.

[Home](#) > [Reports](#)

#### Reports:

##### Statistics of Income:

-  [2011 Resident Report](#)
-  [2011 Non-resident Report](#)
-  [2011 Corporate Report - All Returns](#)
-  [2011 Corporate Report - C Corp Returns](#)
-  [2011 Corporate Report - S Corp Returns](#)
-  [2011 Corporate Report - LLC Returns](#)

**PRACTITIONERS' CORNER:****QUESTIONS AND ANSWERS ON STATE TAXES**

**Q: I keep checking the Rhode Island Division of Taxation's "Where's My Refund?" tool online every hour, but it doesn't seem to change much.**

A: We refresh the tool once a week, usually late on Friday. So if you check on a Saturday, you should have the latest information, the latest update. We are unable to refresh the data more frequently than weekly due to systems limitations.



However, we're in the process of implementing a new agency-wide computer system – known as an integrated tax system. We intend to significantly improve the "Where's My Refund?" tool in the years ahead as we phase in the new system.

**Q: Our firm wants to e-file, but our software company still does not have Form RI-8453, "R.I. Individual Income Tax Declaration for Electronic Filing." I checked the Division of Taxation's website and don't see that form for 2012. Do you know when that form will be released?**

A: It's been discontinued, effective for the 2013 filing season, covering the 2012 tax

year. Software providers who need confirmation should see the [software developers' information section of our website](#). Toward the bottom of the page, they'll find the item about the retired 8453.

Practitioners can and should e-file the Rhode Island return without the Form RI-8453. If you keep a copy of the IRS e-file signature authorization form, [U.S. Form 8879](#), or its equivalent, that'll serve for both federal and state purposes.

**Q: Can we e-file a Rhode Island personal income tax extension, and later on e-file the return itself?**

A: No. Our system cannot accept both an e-filed extension form and an e-filed return for the same taxpayer for the same year.

Because of the way our system is configured, if you e-file the extension, the system will reject the e-filed return when it's filed later on. Your best bet is to mail in a paper extension, then e-file the actual return later on.

We hope that this issue will be resolved when our new integrated tax system is up

and running in a few years.

(Please note that if your extension payment is done electronically, using the [credit card payment option described on the Division of Taxation's website](#), you won't also have to file the extension form itself. A third-party fee applies for using the credit card payment option.)

**Q: Is there an additional one-month extension available for filing the Form RI-1120C for the 2012 tax year?**

A: Yes: It's Form RI-7004-CRS. This is the second consecutive filing season in which we're gathering information from corporations for a study on combined reporting. So certain businesses organized as C corporations must provide additional information – on Schedule CRS – when they file Form RI-1120C.

Recognizing that this may take a little more time, we are once again allowing an additional one-month extension.

So, if your normal filing deadline was March 15, 2013, and your extended due date is September 16, you can get an additional one-month extension, making your extended due date October 15, 2013.

The one-month additional extension is valid for the entire return, not just the Schedule CRS. (In other words, you get one additional

**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.

month to file your Form RI-1120C, which includes the Schedule CRS.)

[Click here](#) to view or download the form for the one-month extension. (Bear in mind that if you [make your extension payment electronically](#), you don't have to file the extension form.)

Remember: The additional one-month extension is only if you must complete more than the minimum part of Schedule CRS. For example, the first question on Schedule CRS says, "Is this company a member of a combined group of companies?"

*(Please turn to page 8)*

**PRACTITIONERS' CORNER:****QUESTIONS AND ANSWERS** (CONTINUED FROM PAGE 7)

If your answer is “No”, don’t complete the rest of Schedule CRS. And you won’t qualify for the one-month extension.

**Q: Does the corporate e-file mandate apply to extensions? Must we e-file extensions? Can we e-file extensions?**

A: We began enforcing Rhode Island’s corporate e-file mandate on January 1, 2013. It applies to the filing of returns.

However, it does not apply to the filing of extension requests. (So it does not apply to either Form RI-7004 or Form RI-7004-CRS).

Because of the way our system is configured, we do not accept e-filed extensions. But please keep in mind that if you [make your extension payment electronically](#), you don’t have to file the extension form.

**Q: Is there a Form 8453 for Partnerships and/or S-Corporations?**

A: No. If you’re looking for an e-file signature authorization form for purposes of e-filing Rhode Island partnership or corporate returns, there is none; we will rely on a copy of the applicable federal form from the U.S. Form 8879 series.

If you’re looking for a transmittal form for purposes of e-filing Rhode Island partnership or corporate returns,

there is none; e-file the return, but mail the required paper documents with a cover letter.

**Q: I e-filed my clients’ personal income tax returns. I only had a few corporate returns – and I didn’t e-file those, because my software program doesn’t allow for it. Will I face some type of penalty from the Division of Taxation as a result?**

A: If you’re going to have clients that require corporate returns, it’s best to have a software program that allows for corporate e-file.

Many software programs for practitioners allow for corporate e-file. ([Click here to see the list.](#)) If yours does not, consider switching for next season.

What about this season? After it’s over, we’ll review your filing history to see if you complied with at least the spirit of the state’s e-file mandate. If not, we’ll determine if any further action is needed.

**Q: I’m filing a nonresident Rhode Island return for the first time. Can I include Rhode Island temporary disability insurance (TDI) tax on Column E of Schedule W, and use that same number on line 17A of RI-1040NR?**

A: If you work in the private

sector in Rhode Island, you probably pay Rhode Island’s temporary disability insurance tax, known as TDI.

But please do not include Rhode Island TDI anywhere on your Rhode Island personal income tax return – no matter if it’s a resident or nonresident Rhode Island return.

The money that comes out of your paycheck for TDI does not count as “Rhode Island income tax withheld” for purposes of Schedule W, so please don’t list it there.

Also, the money that comes out of your paycheck for TDI does not count as a “tax” anywhere on page 1 of your Rhode Island resident or nonresident return, so please don’t list it there, either.

If you do wind up listing TDI tax on your Rhode Island return, the return will automatically be set aside for review, which means that processing of your return – and of any refund you may be due – will be delayed.

By the way: If you receive TDI benefits, those benefits do not count as income - so do not list them on your federal or Rhode Island return.

**Q: My client works in the private sector in Rhode Island, pays TDI tax, and lives in Seekonk. She mentioned something about getting a credit for**

**her TDI tax on her state return, but I had never heard of that.**

A: As noted earlier, don’t list TDI tax or TDI benefits on the Rhode Island resident or nonresident return.

But if you live in Massachusetts, work in Rhode Island, and pay TDI tax, TDI tax does count in the calculation of the Massachusetts state tax credit for taxes paid to other jurisdictions. For more information, see [“Revised Directive 12-1”](#) issued last year by the Massachusetts Department of Revenue.

**Q: My client entered into a voluntary disclosure agreement (VDA) for corporate income tax. The program advertises a three-year limit on audit look backs. But when my client’s corporation recently requested a letter of good standing from the Division of Taxation in order to complete a sale, the Division of Taxation looked back 10 years, found that my client owed Rhode Island corporate tax from nine years ago, and declined to issue the letter of good standing until the tax, penalty, and interest were paid.**

A: For qualifying taxpayers in the Voluntary Disclosure Program, the Division of Taxation generally agrees to limit the audit-related “look back” to a maximum of three years.

(Please turn to page 9)





## PRINCIPAL AGENT NAMED TO NATIONAL PANEL

Daniel T. Clemence, a principal revenue agent in the Rhode Island Division of Taxation's Processing/E-Government section, has been named to serve on a national committee that focuses on electronic tax initiatives.

### Joint effort

Clemence is volunteering to serve as a member of the Federal-State Tactical Advisory Group (TAG), a joint effort of the Internal Revenue Service and the Federation of Tax Administrators.

The group has a dozen members nationwide – some

from the states, some from the IRS. The group coordinates tactical planning for electronic initiatives between the IRS and the states. It also looks to improve communication and cooperation on priorities and strategies.

### 'Excellent choice'

"Dan is an excellent choice for this post," said Rhode Island Tax Administrator David M. Sullivan.

"His broad knowledge and experience will serve TAG well, and what he learns from the group will serve Rhode Island as well," Sullivan said.



**Appointment:** Daniel T. Clemence, a principal revenue agent in the Rhode Island Division of Taxation's Processing/E-Government section, has been named to a national committee that focuses on electronic tax initiatives.

## PRACTITIONERS' CORNER:

### QUESTIONS AND ANSWERS (CONTINUED FROM PAGE 8)

In other words, the Division of Taxation generally won't look back more than three years to see if you are delinquent on your Rhode Island state taxes.

Although the limit on the audit-related "look back" is usually the three previous years, there are exceptions. The limit may not apply if, when applying for a VDA, the taxpayer:

- ◆ is currently registered with the Rhode Island Secretary of State;
- ◆ is organized/incorporated in Rhode Island; or
- ◆ has been living in Rhode Island.

Also, the limit does not apply for trust fund taxes. Bottom line: the three-year look back limit is the general rule, but there are exceptions -- as noted on the [Voluntary Disclosure Program's webpage](#).

**Q: Can I e-file my client's Rhode Island resident personal income tax return if he is claiming a credit on the return for income taxes paid to another state? The paper form says, "You must attach a signed copy of the state tax return(s) for which you are claiming a credit."**

**A:** E-file the return. When a Rhode Island resident claims a credit for taxes paid to another state, and e-files the Rhode Island resident return,

that e-filing process typically provides us with the information we need -- including information about the other state's return. So e-file the Rhode Island return; it should be processed without a snag, as most returns are -- including those claiming credits for other states' taxes. (As is always the case, we reserve the right to request supporting documentation.)



**Q: I owed and paid \$571 after completing my 2011 RI-1040NR. For the 2012 RI-1040NR, do I put this \$571 on line 17b as "amount applied**

**from 2011 return"?**

**A:** No. The amount you're talking about is an amount that you owed --and paid -- for tax year 2011.

You are now working on your return for tax year 2012. On line 17B of the nonresident return for tax year 2012, the phrase "amount applied from 2011 return" generally refers to the portion of a refund ("overpayment") that you elected last year to apply toward your Rhode Island tax liability for 2012.



FEMA Photo/Robert Rose

Westerly area homeowner Mike Gallagher receives information from Federal Emergency Management Agency (FEMA) community relations specialists Angela Lynn, (center) and Maribel Rovira, (right). FEMA worked with state and local officials to assist residents who were affected by Hurricane Sandy.

## IRS GIVES MORE TIME TO HURRICANE VICTIMS



FEMA Photo/Robert Rose

One of the houses in the Misquamicut area that were damaged by Hurricane Sandy.

The IRS will give taxpayers in Rhode Island and some other states until October 15, 2013, to decide when to deduct losses suffered from Hurricane Sandy. In general, when a taxpayer suffers a loss attributable to a federally declared disaster, the taxpayer may elect to deduct the loss either for the year in which the loss occurred or for the immediately preceding year. Details are in [Notice 2013-21](#).

(Photos and captions on this page are from the Federal Emergency Management Agency (FEMA), which provided aid after the storm hit Rhode Island.)



FEMA Photo/Charles Kohler

Narragansett Indian Tribe official Greg Soder (right) discussed hurricane recovery projects with FEMA Branch Director Tim Barnett and Specialist Marcia Henry-Day.



FEMA Photo/Robert Rose

This home facing Misquamicut Beach was damaged following Hurricane Sandy in Westerly. FEMA worked with state and local officials to assist residents who were affected by Hurricane Sandy.

## DEADLINE NEARS FOR HISTORIC TAX PROJECTS

*The following summary is by Donna Dube, principal revenue agent in the Division of Taxation's Forms, Credits and Incentives area:*

Under the state's Historic Preservation Investment Tax Credit program, all active projects that have entered into a contract with the Division of Taxation, have paid the required processing fee, and have been certified by the Rhode Island Historical Preservation & Heritage Commis-

sion as meeting the standards under Rhode Island General Laws § 44-33.2-4, are required to show they have expended 10 percent of the Qualified Rehabilitation Expenditures estimated in the contract with the Tax Division for the project or its first phase of a Phased Project on or before May 15, 2013.

The Division of Taxation, in early March, sent a mailing to owners of every project currently active under this pro-

gram. The mailing included a letter detailing the requirements to be met by May 15, 2013, along with Form HTC-8017, and a 2013 Amendment to the Agreement.

Form HTC-8017 must be completed and returned with all supporting documentation to the Tax Division by May 15, 2013. All costs must be sufficiently documented in order to be allowed against the 10 percent threshold amount.

Owners wishing to abandon their projects, or who cannot meet the 'substantial construction' threshold and wish to amend their contract with the Division of Taxation, should complete the 2013 Amendment to the Agreement that was included in the March mailing.

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



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

**Corporate Tax Tips:** Charles J. Larocque, CPA, (right), chief of the Rhode Island Division of Taxation's Corporate Tax section, offers updates during a recent meeting of the Rhode Island Society of Certified Public Accountants in Providence. Other featured speakers from the Division of Taxation included (foreground, left to right) Matthew Lawlor, Marc Levasseur, Scott Lewis, and Susan M. Galvin.

## PRACTITIONER NOTE: CONSIDER USING EINS FOR LLCs

Your client has three disregarded entities. They're pass-through entities: their income and expenses flow to his personal income tax return (Schedule E of the U.S. Form 1040).

In the past, you may have used your client's Social Security number to file the Rhode Island returns for each LLC. When the returns were filed on paper, it didn't much matter – the Division of Taxation manually en-

tered the information into its computer system, and the system used the same Social Security number for each LLC – but added a unique suffix to the SSN for each.

This season, however, the Tax Division began enforcing the state's corporate e-file mandate. And the tax preparation software you're using won't let you list the same Social Security number for each of your client's LLCs (or you're unable to e-

file, or your e-filed returns keep bouncing back).

What to do?

One solution is to get a federal Employer Identification Number (EIN) for each LLC.

The IRS says you can apply for and obtain an EIN from the IRS -- even if the LLC needs its own federal EIN only for something

as simple as opening a bank account.

It's free.

[Click here](#) for more information about applying online at no charge for an EIN from the IRS.

One more reason to use an EIN instead of your own Social Security number: to protect yourself from identity fraud.



**REGULATORY UPDATE:****CHANGES INVOLVE BUSES, RETAILERS, OTHERS**

The Rhode Island Division of Taxation has posted a number of regulations on a variety of taxes. Following is a summary.

**Bus exemption**

◆ The Division of Taxation amended a regulation to reflect the impact of a new law, enacted in 2012, involving a sales tax exemption for the purchase, rental, or lease of certain buses. Under the old law, a bus had to be used 100 percent in interstate commerce to qualify for the exemption. Under the new law, the bus may qualify for the exemption if it is used 80 percent or more of the time in interstate commerce. (Reg. SU 13-111, which amended and superseded Reg. 99-111.)

**Streamlined agreement**

◆ The Tax Division amended a regulation to help ensure Rhode Island's continuing conformity with the Streamlined Sales and Use Tax Agreement. The existing regulation is now updated to reflect current language in the agreement involving the sourcing of direct mail. (Reg. SST 13-01, which amended and superseded Reg. SST 11-01.)

**Retailers and records**

◆ The Tax Division tightened the language in a regulation that involves how long a retailer subject to the sales tax must keep certain re-

ords. (Reg. SU 13-91, which amended and superseded Reg. SU 11-91.)

**Food products**

◆ The Tax Division repealed a regulation involving food products because the regulation's contents have been merged into another, making the regulation redundant. (Repeal of Reg. SU 87-50; contents already incorporated in Reg. SU 09-59.)

You can read or download regulations - including regulations that have been proposed, repealed, or finalized - by checking the Rhode Island Secretary of State's regulatory website (a screenshot of which appears at the top of this page): [www.sos.ri.gov/rules](http://www.sos.ri.gov/rules)

**MUSICAL, FILM TAX CREDITS**

The Rhode Island Division of Taxation, in conjunction with the Department of Administration, is preparing proposed regulations regarding the musical and theatrical production tax credit, as well as the motion picture production tax credit.



One of the proposed regulations would help to implement the musical and theatrical credit, which was enacted last year.

**Film tax credit**

The Tax Division is also promulgating a regulation to reflect recent changes in state law involving the motion picture credit.

Under the agency's tentative schedule, a public hearing may be held in April or May of 2013 for the proposed regulations involving the musical and theatrical credit and the motion picture credit.

There will be ample time for stakeholders to make oral or written comments.

**Lead paint credit**

The agency also plans a public hearing for a proposed regulation involving the state's residential lead paint credit -- updating the regulation to reflect current law.

# AID FOR EAST PROVIDENCE, WOONSOCKET

The Rhode Island Division of Taxation has generated more than \$214,000 for East Providence so far this filing season and more than \$22,000 for Woonsocket as a direct result of the state's tax refund offset program.

Legislation approved by the General Assembly and signed into law by Governor Lincoln D. Chafee authorized the Division of Taxation to collect debts owed other government agencies and entities in the state, including cities and towns. For this purpose, the Division of Taxation was authorized to use the refund offset power already contained in statute, the new law said.

"Many communities throughout the country are still feeling the effects of the recession, which was the worst since the Great Depression," said Tax Administrator David M. Sullivan. "East Providence and Woonsocket are no exception. If the state tax refund offset program can help them in any way, no matter how much, we're happy to do it,"



he said. The program generally works this way: A city or town provides a list of its delinquents to the state Division of Taxation. The list can be for any "outstanding liability," the law says – so it can be for delinquent property tax, motor vehicle taxes, municipal water or sewer fees, or other such debts.

Before issuing a state personal income tax refund to a taxpayer, the Division of Taxation checks the list to see if the taxpayer has a delinquency on record with the city or town. If so, the Division of Taxation will hold back some – or all – of the refund and hand it over to the city or town until the taxpayer's delinquent bal-

ance is reduced to zero. Any Rhode Island city or town is free to sign up. East Providence was the first to enroll, early last year; Woonsocket was second.

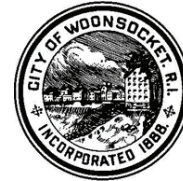
Because it takes time to mesh computers and attend to other details, this is the first tax-filing season in which the Division of Taxation has done state personal income tax refund offsets for municipalities. Sullivan predicted that the number and amount of offsets for East Providence and Woonsocket will grow as the April 15 filing deadline draws near.

"But this program also serves as a deterrent – and that is perhaps its greatest value. If you receive a notice of delinquency, you're more

likely to pay up if you know there's a threat of having your state income tax refund offset," Sullivan said.

For example, the City of East Providence in October 2012 sent letters to about 9,700 people who were delinquent on their taxes. The letters told them that their state tax refunds might be offset unless they paid their local taxes.

As a result of the letters alone, the City wound up collecting \$2.9 million. In other words, just in response to the letters, and before actual offsets began, people who received the letters chose to step forward voluntarily to pay to the City of East Providence their delinquent taxes.



| Community       | Total offset | Number of offsets | Average offset |
|-----------------|--------------|-------------------|----------------|
| East Providence | \$ 214,574   | 637               | \$ 337         |
| Woonsocket      | \$ 22,262    | 40                | \$ 557         |

Offsets for calendar year to date through March 25, 2013, involving 2012 tax year refunds. East Providence offsets began with start of filing season. Woonsocket offsets began March 8, 2013.

## RHODE ISLAND TAX ROUNDUP

- ◆ The Tax Division has posted its first-ever [form involving the compassion center surcharge](#).
- ◆ The Providence Plan has

created an interactive map that shows where eligible taxpayers may get their federal and Rhode Island personal income tax returns – and their property-tax relief

claims on Form RI-1040H – prepared and filed electronically at no charge. The map is available at: <http://taxprep.provplan.org>

- ◆ Tax cases were still being finalized at press time, so the "Legal Corner" feature does not appear in this issue. However, the feature will appear in the next issue.



**Postcard view:** *As this old postcard shows, the look of downtown Providence has changed over the decades, but the State House (right rear), where Rhode Island tax laws are made, has passed the test of time.*

## 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](http://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](mailto: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>



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