

E-filing of business returns on or before March 1, 2016

Forms reflect most sweeping changes to corporate tax regime in nearly 70 years

The Rhode Island Division of Taxation is on track to allow the electronic filing of business returns on or before March 1, 2016.

“The Division is nearing completion of its annual testing of electronic formats for business returns and is working closely with software providers on their electronic forms,” said Acting Tax Administrator Neena S. Savage.

The testing process is typically completed each January, but has taken longer this year as a result of legislation enacted in 2014 that made the most sweeping changes to Rhode Island’s corporate tax structure in nearly 70 years.

Those changes – which include mandatory unitary combined reporting and the repeal of the franchise tax – took effect for tax years beginning on or after January 1, 2015, and must be incorporated into the forms and related documents that the agency is finishing now, covering tax year 2015.

The annual testing process of business forms was far more involved and complex this year because the Division needed to make sure that the forms accurately reflect those major changes to Rhode Island’s corporate tax structure.

The tax-law changes have already been incorporated into paper forms for tax year 2015, which have already been posted and are available for download from the Division of Taxation website: <http://www.tax.ri.gov/taxforms/>. Tax professionals and preparers are able to use these forms, available on the Division’s website at no charge 24 hours a day, to prepare their filings for tax season 2015. E-filing is much more convenient and less costly for everyone involved, and paid preparers are subject to an e-file mandate. The testing and approval process for the versions of the business forms that are used for e-filing should be completed soon.

Percentage of business returns filed on extension each year		
Entity type	Form	% filed on extension
C corporation	RI-1120C	79%
S corporation	RI-1120S	93%
LLC, LP, LLP	RI-1065	29%

Form RI-1120C is for entities treated as C corporations for federal tax purposes. Form RI-1120S is for subchapter S corporations. Form RI-1065 is for those treated as pass-through entities for federal tax purposes.

Most C corporations and S corporations file their Rhode Island returns on extension each year, so they do not need the forms to e-file at this time of year – they e-file in the fall. Also, information returns for pass-through entities are not due until mid-April. Nevertheless, the Division is on track to give tax professionals and their business clients every opportunity to e-file early, well in advance of their filing deadlines for tax year 2015.

Background

On January 19, 2016, the Rhode Island Division of Taxation notified all tax professionals, software vendors, and other stakeholders that the Division had begun accepting electronically filed personal income tax returns for tax year 2015 -- signaling the official start to tax-filing season:

<http://go.usa.gov/cUZJw>

To date, the Division has processed 23,002 more personal income tax returns than at this time last year, an increase of 54 percent. As of Feb. 2, 2016, the Division had processed 65,500 personal income tax returns, compared with 42,498 returns that the Division had processed as of Feb. 4, 2015.

Personal income tax returns processed			
<i>Filing season 2015</i>	<i>Filing season 2016</i>	<i>Difference (returns)</i>	<i>Difference (percentage)</i>
42,498	65,500	+23,002	+54%
Totals are for filing season as of February 4, 2015, and February 2, 2016.			

In the same announcement, the Division told tax professionals and other stakeholders that it would not begin accepting electronically filed business returns until the annual testing and approval procedures had been completed.

The testing and approval procedure is performed each year to ensure that the returns, done in electronic format by software providers, are consistent with the Division’s computer system.

Reviewing, testing, approving

Each year, the Division of Taxation re-examines its forms and instructions. The process typically begins in the summer and involves reviewing, testing, and approving forms for returns. This time around, the process began earlier, and testing was more involved, partly because a number of key forms, instructions, and schedules had to be revised to reflect changes in statute that affect tax year 2015, including:

- Repeal of the franchise tax;
- Reduction of the 9 percent corporate income tax rate, to 7 percent;
- Establishment of mandatory unitary combined reporting;
- Change in the apportionment formula for all C corporations;
- Change in the sourcing formula for all C corporations;
- Addition of three new business tax credits; and
- Additional data needs for a statutorily required report on combined reporting.

The Division of Taxation also had to reformat all corporate forms this year so that they could be processed using the agency's new high-speed scanner.

The Division expects that software vendors will soon begin submitting their electronic forms to the agency for review. Assuming the submissions are approved, the vendors will then be free to update their Rhode Island business return software for clients. (The Division has no control over when such updates will be deployed by the vendor.)