

Rhode Island Division of Taxation

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Statement of principles on business taxation changes

The Rhode Island Division of Taxation is issuing the following statement of principles regarding the application of combined reporting, single sales factor apportionment, market-based sourcing, and other changes to the Rhode Island corporate income tax regime which were enacted in June 2014 and which take effect for tax years beginning on or after January 1, 2015.¹

“These are the most sweeping changes to the structure of Rhode Island’s corporate income tax since 1947. To help implement the changes, we began working on regulations in June, immediately after the legislation was enacted, and intend to issue proposed regulations as soon as practicable,” said Rhode Island Tax Administrator David M. Sullivan.

“In the interim, we are taking this opportunity now to provide taxpayers and practitioners with a statement of the underlying principles that are guiding our deliberations with respect to the application of mandatory unitary combined reporting, changes involving apportionment, and related matters,” Sullivan said.

“We trust that this statement of principles will provide helpful guidance to taxpayers and tax practitioners in advance, for their preparations for the coming tax year, knowing that we will soon be issuing regulations that will supply far greater detail and formal guidance,” Sullivan said. “This statement should also aid taxpayers in the computation of their estimated tax payments.”

STATEMENT OF PRINCIPLES

For tax years beginning on or after January 1, 2015:

- Mandatory unitary combined reporting will apply only to entities that are organized as C corporations and that are or will be subject to tax under Rhode Island General Laws (RIGL) Chapter 44-11, “Business Corporation Tax.”²

¹ Rhode Island’s corporate income tax as currently configured was established in 1947 (see Public Laws of Rhode Island 1947, Chapter 1887). The changes to that system were enacted in Rhode Island Public Law 2014, ch. 145, art. 12.

² Certain entities generally will not be subject to combined reporting, including subchapter S corporations, partnerships, disregarded entities, banks, credit unions, insurance companies, limited liability companies that are treated as pass-through entities for federal tax purposes, and public service corporations. Proposed regulations will be forthcoming providing further details.

■ Combined reporting will apply only in cases where there are two or more C corporations that are under common ownership and that are engaged in a common business enterprise – a “unitary” business.

■ Combined reporting will apply whether the business of a combined group is conducted entirely in Rhode Island, or conducted in Rhode Island and other jurisdictions. The new law involving combined reporting:

- requires “water’s edge” treatment;
- mandates the “Finnigan” method for apportionment purposes;
- mandates market-based sourcing for apportionment purposes;
- includes certain tax haven language; and
- generally allows a combined group to elect to file based on its federal consolidated group.

■ Single sales factor apportionment will apply only to an entity organized as a C corporation (which is or will be subject to tax under RIGL Chapter 44-11), no matter if that C corporation is subject to combined reporting. For such C corporations, single sales factor apportionment will be mandatory.

■ For tax years beginning on or after January 1, 2015, the following special apportionment formulas will no longer be applicable for C corporations that are or will be subject to tax under RIGL Chapter 44-11 (but the formulas will continue to be available to other entities):

- RIGL section 44-11-14.1, “Certified facility apportionment exclusion”;
- RIGL section 44-11-14.2, “Allocation and apportionment of regulated investment companies and securities brokerage services”;
- RIGL section 44-11-14.3, “Credit card banks -- Allocation and apportionment of income”;
- RIGL section 44-11-14.4, “Allocation and apportionment -- Retirement and pension plans”;
- RIGL 44-11-14.5, “International investment management service income”; and
- RIGL 44-11-14.6, “Allocation and apportionment -- Manufacturers.”

■ The Division of Taxation continues to work on updating its regulation involving apportionment. The updated regulation will show, among other things, that specialized apportionment calculations will continue to apply to specific industries, including motor carriers and airlines. The update regulation will also show that entities -- other than C corporations that are or will be subject to tax under RIGL 44-11 – will continue to be subject to Rhode Island’s standard formulary apportionment, which in general takes into account the average net book value of the taxpayer’s total tangible property; the taxpayer’s total receipts; and the wages, salaries, and other compensation the taxpayer pays to officers, employees, and certain others. Thus, for tax years beginning on or after January 1, 2015, there will be two separate sets of apportionment rules: one for C corporations that are or will be subject to tax under RIGL Chapter 44-11, another for other entities.

■ For tax years beginning on or after January 1, 2015, C corporations that are or will be subject to tax under RIGL Chapter 44-11 will be taxed at a rate of seven percent (7%), which is down 2 percentage points from the nine percent rate (9%) that applies for the 2014 tax year.³

■ For tax years beginning on or after January 1, 2015, the franchise tax under RIGL Chapter 44-12 is repealed.

■ The market-based sourcing method for apportionment purposes will apply only to an entity organized as a C corporation (which is or will be subject to tax under RIGL Chapter 44-11), no matter if that C corporation is subject to combined reporting. All other entities – in other words, all entities that are not organized as C corporations taxed under RIGL Chapter 44-11 – will continue to use the existing cost-of-performance method.

■ For tax years beginning on or after January 1, 2015, Rhode Island will apply special rules regarding payments of estimated tax for any taxpayer required to file a combined report. The Division of Taxation urges taxpayers to become familiar with the special rules in advance of the first deadline for estimated payments, which is generally the 15th day of the third month of the taxable year. In order to meet “safe harbor” provisions, such taxpayers will have to compute estimated payments for the tax year as follows:

- The installments must equal 100 percent of the tax due for the prior year plus any additional tax that is due to the combined reporting provisions; or
- The installments must equal 100 percent of the current year tax liability.

■ The Division of Taxation is continuing to work on guidance regarding the establishment of an independent appeals process, as required by statute. The panel will attempt to resolve disputes between the Tax Administrator and the taxpayer with respect to the method of apportionment applied regarding the corporate income tax under RIGL Chapter 44-11.

The changes to the structure of Rhode Island’s corporate income tax were contained in the fiscal year 2015 budget bill that was approved by the General Assembly and signed into law by Governor Lincoln D. Chafee on June 19, 2014. The Division of Taxation on June 27, 2014, issued [a summary of those and other tax law changes](#), and elaborated on the changes in its [third-quarter newsletter](#).

Please submit comments on this Exposure Draft on or before December 8, 2014, to:

*Neil Downing
Chief Revenue Agent
Rhode Island Division of Taxation
One Capitol Hill
Providence RI 02908*

E-mail: Neil.Downing@tax.ri.gov

³ The rate could be lower. For example, a rate reduction will continue to be authorized for eligible taxpayers under RIGL Chapter 42-64.5, “Jobs Development Act,” and RIGL Chapter 42-64.14, “The I-195 Redevelopment Act of 2011.” Furthermore, tax credits could reduce a C corporation’s effective tax rate, assuming that the corporation qualifies.