

RHODE ISLAND TAX NEWS

A NEWSLETTER FOR TAXPAYERS AND PREPARERS

SPECIAL EDITION: FILING SEASON 2013

AVOIDING COMMON ERRORS

Help ensure prompt and accurate processing of your Rhode Island personal income tax return this year by avoiding six errors that are commonly made by taxpayers (and even some practitioners).

Following is a summary:

1.) Modifications

At issue is RI Schedule M, "RI Modifications to Federal AGI." To avoid some of the most common errors on that schedule, follow this guiding principle:

There's a specific line on the schedule for every modification that's allowed by state law. So if there's no line, the law doesn't allow it.

When they can't find a line for what they insist should be a modification, some

taxpayers and practitioners enter a dollar amount in one of the "total" lines, then attach a statement trying to explain their position. Don't do it. The return will be set aside in the Tax Division's error register, where it will languish until someone can manually review it – something which, in the busy tax season, can take weeks, if not months. (Of course,

attaching a statement to the return is fine if you're merely elaborating on a modification allowed by law and for which a line in the schedule is provided.)

2.) Form RI 1099-PT

At issue is Form RI 1099-PT, "Rhode Island Pass-Through Withholding."

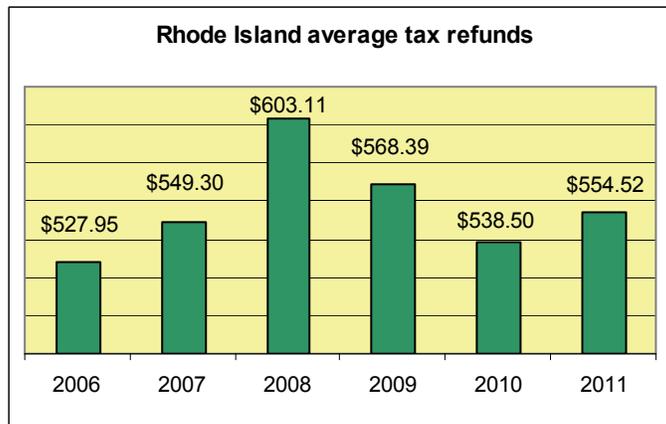
(Please turn to page 6)



SPECIAL EDITION: FILING SEASON

Sweeping changes to the Rhode Island personal income tax system were first widely seen by taxpayers last filing season.

This season, the changes are not as great -- but there are a few. This special edition of *Rhode Island Tax News* summarizes some of the changes that you may find helpful to know about as you prepare your personal or business tax returns this filing season.



Average refund by tax year, prior to application of interest and offset.
Data for tax year 2011 is through December 17, 2012.

'WHERE'S MY REFUND?' TOOL UPGRADED

The Rhode Island Division of Taxation's "Where's My Refund?" tool on the agency's website is getting an upgrade.

By late February, the tool will, in certain situations, provide a taxpayer with

more information as to the status of the taxpayer's refund. It will also offer guidance on what steps to take to resolve any issues.

"We're hoping that these improvements will go a long way toward resolving

a frustration that some taxpayers have encountered in the past" when using the online tool, said Rhode Island Tax Administrator David M. Sullivan.

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CHANGES MADE FOR WALK-IN SERVICE

The Rhode Island Division of Taxation has been spreading the word about the many options that are available for obtaining tax preparation service this season either at no charge or for a fee.

The Tax Division launched the effort because the agency no longer offers free walk-in tax preparation of current-year returns.

The policy change, effective January 2013, is not new; it was the result of legislation enacted in June 2012. Still, the Tax Division has been reaching out to taxpayers, preparers, and other stakeholders to make sure that as many people as possible know about it.

The Tax Division has also alerted taxpayers and others about the many opportunities that are available for getting their Rhode Island personal income tax returns – and property-tax relief forms – filed at no charge.

“Of the more than 600,000 current-year returns filed last year, only about 2,700 were done through the Tax Division’s free walk-in service. That’s less than one-half of 1 percent of all returns. Although the percentage may be small, each of those 2,700 taxpayers is important to us, and we want to make sure every one of them knows that there are many other ways to get their returns done, often at no charge,” said Tax Administrator David M. Sullivan.

Olden days

In the 1970s and 1980s, the Tax Division sent representatives to locations throughout the state during tax season to help people prepare their Rhode Island returns, and also had mass mailings

of tax forms and booklets. Each season culminated with a festive event at the Corliss Street post office in Providence, where taxpayers were entertained by bands and greeted by Postmaster Harry Kizirian as their returns were prepared at the last minute by Tax Division and IRS staff.

Sign of the times

But over the years, more and more taxpayers have turned to preparers to get their taxes done. Others have purchased software programs to do their taxes themselves, or have taken advantage of many online preparation programs – including the [IRS Free File](#) program.

As a result, the IRS and many state tax agencies throughout the country have scaled back or eliminated walk-in service, and have curtailed mass mailings of booklets and forms.

To help with the transition in Rhode Island, the Tax Division has:

- ◆ mailed postcards to just about everyone who had taken advantage of the walk-in service in 2012 to have their 2011 personal income tax returns or Form RI-1040H property-tax relief claims prepared. The postcards let recipients know about the policy change, and about other ways to get their returns done at no charge.

Where to find free tax preparation services

- ◆ United Way of Rhode Island’s helpline: 2-1-1. It’s a toll-free call; just dial the three numbers: 211. Or visit www.211ri.org
- ◆ The Volunteer Income Tax Assistance program. Call toll-free at 1-800-906-9887, or visit www.irs.gov
- ◆ The AARP Tax-Aide program. After January 21, call toll-free at 1-888-227-7669, or visit: www.aarp.org/taxaide



Reaching out

Officials of the Rhode Island Division of Taxation have served as guest speakers in a number of forums in recent months to get the word out about administrative and tax law changes. Among the speakers is Leo R. Lebeuf, chief of the Division of Taxation’s Personal Income Tax section, who addressed a meeting in December of the Rhode Island Society of Certified Public Accountants.

- ◆ developed a flier (please see copy on page 3) to let taxpayers know about the change and the many free resources available throughout the state. The Tax Division in late 2012 also included the fliers in mailings containing the Form RI-1040H.

- ◆ created a large-size poster for distribution and posting throughout the agency to spread the word.

- ◆ dispatched staff to meet with representatives of the Volunteer Income Tax Assistance (VITA) program and the AARP Tax-Aide program to

let them know about the change and to work with them on the transition.

Convenient options

“Taxpayers are going to be pleasantly surprised, because many of the other options are more convenient for them,” Sullivan said.

For example, to get your tax return prepared and filed at no charge at the Tax Division in prior years, you typically had to obtain a number and wait in line.

As a consequence, taxpayers often encountered long lines and lengthy wait times during the filing season. A number of the volunteer sites allow for appointments, for which taxpayers can call in advance. That way, taxpayers won’t have long lines and long waits.

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WHERE TO GET YOUR TAXES DONE

Special
Notice

*A message for taxpayers from the
Rhode Island Division of Taxation*

The Rhode Island Division of Taxation will no longer do current-year tax returns on a walk-in basis, beginning January 1, 2013.

But 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 dates, times, addresses, and other information, please see the contact information listed at right →



You may get your Rhode Island personal income tax return -- and your property-tax relief form -- prepared for you at no charge. For locations and other details, contact:

- ◆ United Way of Rhode Island's helpline: 2-1-1. It's a toll-free call; just dial the three numbers: 211. Or visit www.211ri.org
- ◆ The Volunteer Income Tax Assistance program. Call toll-free at 1-800-906-9887, or visit www.irs.gov
- ◆ The AARP Tax-Aide program. After January 21, call toll-free at 1-888-227-7669, or visit: www.aarp.org/taxaide



RHODE ISLAND DIVISION OF TAXATION

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The Rhode Island Division of Taxation continues to provide some other taxpayer services on a walk-in basis, including disbursing tax forms, answering questions, and accepting payments.

EMPLOYERS TO PAY MORE DUE TO FUTA CREDIT

Rhode Island employers will have to pay more in federal unemployment insurance tax than they otherwise would come January 31, 2013.

It's because the state still owes on money it had borrowed from the federal government a few years ago to help pay benefits to the unemployed.

FUTA tax rate

The federal unemployment insurance tax, also known as FUTA, is generally 6 percent of the first \$7,000 of each employee's wages.

If you're an employer, you generally get to claim a credit for the state unemployment insurance tax you pay.

You apply the credit against your FUTA tax.

The credit is typically 5.4

percent, which reduces your FUTA tax rate to 0.6 percent.

Rhode Island employers

But if you're a Rhode Island employer, you will get a credit of just 4.8 percent. As a result, your FUTA tax rate will be 1.2 percent.

So you'll generally have to pay \$84 of FUTA tax per employee (1.2 percent of the first \$7,000 of each employee's wages), instead of \$42 per employee (0.6 percent of \$7,000 in wages).

You'll see the impact on your FUTA filing for 2012, the one that's due by January 31, 2013.

Rhode Island is not the only state affected. Employers in 18 other jurisdictions will pay more than they otherwise would in federal unemployment insurance tax for 2012.

Employers in those states –

known as "credit reduction states" – cannot claim the full credit against their FUTA tax if the state's loan remains outstanding for a certain period of time. (Rhode Island's loan balance on January 3 was \$199.79 million.)

The table at right lists jurisdictions subject to the FUTA credit reduction for 2012, and the reduction that will apply to an employer in each jurisdiction.

For more information

The Rhode Island Division of Taxation's website – the Employer Tax section – includes [more information about the impact](#). The IRS's website also has [additional information](#).

For information about the filing deadline for state unemployment insurance and related taxes, and related state taxes, please see page 7.

State:	Credit Reduction:
Arizona	0.3%
Arkansas	0.6%
California	0.6%
Connecticut	0.6%
Delaware	0.3%
Florida	0.6%
Georgia	0.6%
Indiana	0.9%
Kentucky	0.6%
Missouri	0.6%
Nevada	0.6%
New Jersey	0.6%
New York	0.6%
North Carolina	0.6%
Ohio	0.6%
Rhode Island	0.6%
Vermont	0.3%
Virgin Islands	1.5%
Wisconsin	0.6%

The greater the credit reduction, the more in tax employers must pay. For example, employers in Rhode Island must pay more in FUTA tax per employee than employers in Vermont.

Source: U.S. Department of Labor

TAX DIVISION MAILS FORM 1099-G TO TAXPAYERS

The Rhode Island Division of Taxation began mailing out the Form 1099-G in late December and expected to complete the process in January.

Form 1099-G is not a bill. Rather, it is an information report, showing the amount of Rhode Island personal income tax refund that you received in 2012 (or overpayment to be used

as a carry forward.) The agency is sending the form to those who, on their U.S. Form 1040 last year, did not claim the standard deduction but instead made a separate list of their deductions on Schedule A, a process known as itemizing.



As a general rule, you must list, as income on your federal return this season, the amount of Rhode Island personal income tax refund you received in 2012.

Here's the general rule: If the amount of your Rhode

Island refund boosts the amount of your federal adjusted gross income for federal tax purposes, it will boost the amount of your income for Rhode Island tax purposes, too.

If your Rhode Island refund is included in your income for Rhode Island tax purposes, state law does not allow for a modification or adjustment.

‘WHERE’S MY REFUND?’ TOOL (CONTINUED FROM PAGE 1)

In prior years, if you checked the online tool to find out the status of your refund, the tool almost invariably responded that the refund was being held for review -- providing no further details.

Taxpayers sometimes went weeks -- or months, in some cases -- seeing the same status, with no guidance on what steps to take next.

New for this season, the Division of Taxation will provide a more informative status report in certain situations -- mainly those that involve the most common problems that can

snag refund processing.

Missing Form W-2

For example, if your refund is being held up because your return did not include the required Form W-2 wage statement, the system will let

you know that -- and give you a mailing address or fax number that you can use to send in your W-2.

As another example, you may have claimed, on your Rhode Island return, a credit for income tax you paid to

another state.

If that’s the case, the system will inform you that your refund is being held up until you provide to the Rhode Island Division of Taxation a signed copy of the return you filed to the

other state. The system will supply the appropriate address or fax number.

The Division of Taxation hopes to have the improvements to the tool in place by the end of February, 2013.

“We’ve heard from a num-

ber of taxpayers and tax professionals about their concerns with our online tool, and we’re taking steps to address their concerns,” Sullivan said.

More improvements

The steps to improve the online tool are incremental in nature, Sullivan said. And the online tool will still be refreshed with new information just once a week, by Saturday.

But the “Where’s My Refund?” tool will be significantly improved in the years ahead as the agency phases in its new system-wide computer system, Sullivan said.



CHANGES IMPACT SOME BUSINESS TAX FILINGS

There are some important changes in store this filing season for some business taxpayers. Following is a summary:

Under legislation approved by the General Assembly and signed into law in June 2011 by Governor Lincoln D. Chafee, limited partnerships (LPs) and limited liability partnerships (LLPs) must pay an annual charge, or filing fee, of \$500, starting with tax year 2012.

Thus, for many LPs and LLPs, the charge will first appear this season, as they prepare their returns for 2012.

LLCs

The \$500 annual charge has long applied to limited liability companies that are not taxed as corporations for federal and state tax purposes, and has also long applied to single-member LLCs. The new law reemphasizes that longstanding position.

Revamped form

New for this season, the Form RI-1065, “Rhode Island Partnership Income Return,” will be filed by LPs, LLPs, general partnerships, and many LLCs -- including single-member LLCs.

The form has been revised to reflect the change. (*Please see excerpt at right.*) The form also includes a line for the \$500 annual fee. General partnerships are not subject to the annual fee.

(The Form 1120S will be reserved chiefly for subchapter S corporations.)

Combined reporting

This is the second filing season for *pro forma* combined reporting for certain C corporations. If you’re subject to *pro forma* combined reporting, file a Schedule CRS with your Form 1120C. (The information is being gathered for a study.)

RI-1065

Amended	<input type="checkbox"/>
Initial Return	<input type="checkbox"/>
Final Return	<input type="checkbox"/>
Short Year	<input type="checkbox"/>
Address Change	<input type="checkbox"/>
LLC	<input type="checkbox"/>
LLP	<input type="checkbox"/>
LP	<input type="checkbox"/>
Partnership	<input type="checkbox"/>
SMLLC	<input type="checkbox"/>

AVOID THESE COMMON ERRORS (CONTINUED FROM PAGE 1)

It shows a recipient’s income from a pass-through entity, such as a subchapter S corporation. Keep in mind that the information from that form belongs on Schedule W of the Form RI-1040. It is not an “other payment.” Bottom line: Don’t put the Form RI 1099-PT information anywhere on the Form RI-1040 except Schedule W.

3.) Employer Identification Number (EIN)

Suppose you’ve opened the screen on which you’re supposed to enter information from a Form W-2 wage statement. You start typing – and the software automatically fills in most of the other items on the screen, including the employer’s federal Employer Identification Number (EIN). Why? Probably because you or someone else entered a Form W-2 into the software program a year or two ago, and the information was archived. This time, the computer figures you’re going to enter the same thing again, digs out the prior year’s archived information, and fills in key elements on the screen, via the auto-fill feature.

What’s the problem? Something may have changed in the meantime - such as the EIN. Employers sometimes set up different entities – with similar-sounding names – to handle payroll, employee services, and other such areas. When the W-2 arrives, it may be almost

exactly like the one from the year before – except that the EIN has changed. If you submit that number on your return, the return will be set aside for review because of the mismatch between the employer’s name and the EIN. That will cause frustration for you and your client – which could easily have been avoided by careful checking before filing.

4.) Filing status

There are two straightforward rules to keep in mind:

- ◆ If your federal return says that you’re married filing jointly, your Rhode Island return must say that, too.
- ◆ If your federal return says you’re married filing separately, your Rhode Island return must say that, as well.

In other words, you can’t choose one filing status for federal tax purposes, another for Rhode Island purposes. In almost every case, the law doesn’t allow it

For instance, some couples choose to use “married filing

Old tax rates <small>(pre-2011)</small>	New tax rates <small>(2011 TY and later)</small>
3.75%	3.75 %
7.00%	4.75 %
7.75%	5.99 %
9.00%	
9.90%	

Rhode Island personal income tax credits
<i>Following is a list of the only credits allowed against the Rhode Island personal income tax. If your credit is not on the list, it isn’t allowed:</i>
✓ Rhode Island earned income credit
✓ property tax relief credit (Form RI-1040H)
✓ residential lead abatement income tax credit
✓ credit for income taxes paid to other states
✓ historic structures tax credit
✓ motion picture productions tax credit
✓ child and dependent care (25% of federal)
✓ credit for tax withheld
✓ musical/theatrical production tax credits (effective July 1, 2012)
✓ tax credits for contributions to scholarship organizations

jointly” for federal tax purposes, “married filing separately” for Rhode Island tax purposes – perhaps because of an ill-informed strategy they heard about. The strategy doesn’t work; the Rhode Island filing status must match the federal one.

5.) Expired tax credits

Big changes were made to Rhode Island personal income tax law in 2010, effective January 1, 2011. As a result, the top rate fell sharply, and the middle rate dropped from what existed before (*see table at left*). But the number of state tax credits allowed also dropped. Under prior law, there were more than 25 credits allowed. Nowadays, there’s only a handful (*see table above*).

Keep in mind that other

Rhode Island credits may be allowed against other Rhode Island taxes, such as the corporate income tax.

But there are no other Rhode Island credits allowed against the Rhode Island personal income tax beyond those in the table above. Also, any other credits that you may have earned before the law was changed cannot be carried forward.

6.) TDI tax

Schedule W is where you list the Rhode Island income tax that was withheld from your pay (or other source, such as a pension). But for Schedule W, state temporary disability insurance (TDI) tax doesn’t count as state income tax withheld. So don’t list TDI on your Schedule W (or on the cover of your Rhode Island return, either).

DEADLINE NEARS FOR EMPLOYER TAX FILING

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

About 32,000 employers have until 11:59 p.m. on January 31, 2013, 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 fourth 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).



SALES TAX RECONCILIATION DUE

Retailers must file the annual sales tax reconciliation on or before January 31, 2013. The form serves as a kind of annual report for retailers: On the form, retailers account for their sales, deductions, and certain other items – including the amount of sales tax remitted.

The return (on Form T-204R-Annual) can be filed on paper, but many retailers find it more convenient to file online through the ACH debit process:

<https://www.ri.gov/taxation/business/index.php>

You may use the online option to file either the regular annual sales tax reconciliation, or the new annual sales tax reconciliation that's specifically for retailers of alcoholic beverages.

Alcoholic beverages

The annual sales tax reconciliation for retailers of alcoholic beverages -- including liquor stores, bars, and taverns -- is new this year, and must be filed by such retailers instead of the regular annual sales tax reconciliation form. It's due on or before February 1, 2013.

More information

[Click here](#) to learn more about both forms, including what's new on the sales tax reconciliation form, and answers to some frequently asked questions.

[Click here](#) for more information about the reconciliation for retailers of alcoholic beverages.

[Click here](#) for a special notice for wholesalers of alcoholic beverages.

ENFORCEMENT OF CORPORATE E-FILE MANDATE

A number of providers of professional tax preparation software -- including some of the most popular programs for preparers -- have notified the Rhode Island Division of Taxation that they will start offering Rhode Island corporate e-file for this season, for the 2012 tax year.

The move comes just in time: The Tax Division announced in July that it will enforce the state's corporate e-file mandate starting with the filing season that opened in January 2013.

Legislation approved by the General Assembly and enacted in 2008 requires paid preparers of tax returns to file Rhode Island tax returns for their clients electronically with the Tax Division.

The provision applies to each preparer who prepared more than 100 Rhode Island returns in the prior year.

The requirement took effect January 1, 2009. But as a practical matter, it applied only to personal income tax returns at

that time; the agency's computers were not accepting e-filed corporate returns.

But corporate e-file "went live" at the Tax Division in March 2011, and has been available ever since.

The Tax Division expects that most practitioners will have software in this season that allows for the e-filing of business returns -- including Forms RI-1120C, RI-1120S, and RI-1065.



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.

HOW TO SUBSCRIBE

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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>

CHANGES TO WALK-IN SERVICE (CONTINUED FROM PAGE 2)

In addition, the Tax Division, as a state agency, could only prepare state returns; taxpayers had to go elsewhere to get their federal returns done. But by using one of the volunteer services, taxpayers can get their federal and state returns done all in one location and at the same time.

Overall, Sullivan said, "We are taking many steps to publicize the change and to promote alternative options for people who received the free tax preparation service from us in the past."

Besides the free volunteer sites, there are many tax preparation

services, certified public accountants, public accountants, enrolled agents, registered tax return preparers, and others in the region who prepare returns.

Fighting fraud

Among the reasons that the Tax Division has drawn the curtain on the free walk-in tax-preparation service is an increase in tax refund fraud in recent years at both the federal and state level.

Tax Division staff members who formerly were assigned to prepare current-year re-

turns for walk-ins are now assigned to bolster the Tax Division's anti-fraud efforts. This reallocation of resources is expected to result in the halting of at least \$1 million a year in fraudulent claims for refunds.

The Tax Division will continue to provide certain taxpayer services on a walk-in basis, including disbursing tax forms, accepting payments, and answering questions.

A copy of the Tax Division's poster/flier appears on page 3.



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