



Rhode Island Department of Revenue

Division of Taxation

PUBLICATION 2019-04
PASS-THROUGH ENTITIES

INFORMATION FOR TAXPAYERS AND TAX PROFESSIONALS
DECEMBER 24, 2019

FAQs on entity-level tax for pass-through entities

In this publication, the Rhode Island Division of Taxation provides answers to some frequently asked questions (FAQs) about the entity-level tax which pass-through entities may elect to pay for tax years beginning on or after January 1, 2019.

1. What is the entity-level tax which pass-through entities may elect to pay?

Under a new Rhode Island law, a pass-through entity, which normally pays no tax on its income, may elect to pay Rhode Island state income tax.¹

2. What is the tax rate?

The tax rate is 5.99% of net income.

3. What is net income?

For purposes of the new entity-level tax on pass-through entities, the term “net income” means the net ordinary income, net rental real estate income, other net rental income, guaranteed payments, and other business income, less specially allocated depreciation and deductions allowed under Internal Revenue Code § 179 (“Election to expense certain depreciable business assets”), all of which would be reported on the individual federal tax form schedules C and E. Net income for purposes of the pass-through entity tax does not include specially allocated investment income or any other types of deductions.

¹ R.I. Gen. Laws § 44-11-2.3.

4. Who is an owner?

For purposes of the new entity-level tax on pass-through entities, the term “owner” means an individual who is a shareholder of an S Corporation; a partner in a general partnership, a limited partnership, or limited liability partnership; a member of a limited liability company, including a single-member LLC; a beneficiary of a trust; or a sole proprietor.

5. How is the election made?

An annual election is made by the pass-through entity by filing the prescribed tax form and remitting the appropriate state income tax.²

6. How is the appropriate state income tax paid?

For calendar-year filers, estimated tax payments are due quarterly on April 15, June 15, September 15, and December 15 of the tax year. Any remaining balance may be paid with the filing of Form RI-PTE, which is due on March 15, after the close of the tax year.³ (Part of a draft of Form RI-PTE is reproduced below.)

State of Rhode Island and Providence Plantations
2019 RI-PTE
Pass-through Entity Election Tax Return

19113899990101

Federal employer identification number Social security number

For the taxable year from MM/DD/2019 through MM/DD/YYYY

Name

Short Year Pro-Forma
 Address Change Amended Return

To make payments electronically, using the Division’s portal, click [here](#) or use the following address: <https://taxportal.ri.gov/>. Otherwise, payments are made on [Form BUS-EST](#) (“Business Tax Estimated Payment Form”).⁴

(For information about making payments in calendar year 2019, please see the “Transition year” section of this publication.)

² Form RI-PTE (“Pass-Through Entity Election Tax Return”), which is currently under development.

³ If any of the due dates listed in this publication falls on a weekend or on a holiday recognized by the State of Rhode Island, the due date automatically moves to the next business day. For a list of State holidays, click [here](#) and see the calendar links on the far-right side of that webpage.

⁴ The newly revised Form BUS-EST has been posted in time for those who wish to make the entity-level payment prior to the end of the 2019 calendar year.

Part of the newly revised Form BUS-EST is reproduced below. (A portion of the form, involving the entity-level tax for pass-through entities, is highlighted in yellow.)

State of Rhode Island and Providence Plantations
Form BUS-EST
Business Tax Estimated Payment Form

13111299990101

Name		Federal employer identification number	
Address		For the period ending:	
Address 2			
City, town or post office	State	ZIP code	E-mail address

Estimates are due by the 15th day of the fourth, sixth, ninth and twelfth months of the taxable year

Part 1: Declaration of estimated tax

Check the box next to the form for which you are making an estimated payment. Check only one box.

<input type="checkbox"/> Form RI-1120 - Rhode Island Corporate Income Tax - Key #54
<input type="checkbox"/> Form RI-1120POL - Rhode Island Political Organization Tax - Key #78
<input type="checkbox"/> Form T-71 - Rhode Island Gross Premium Insurance Tax - Key #13
<input type="checkbox"/> Form T-71A - Surplus Lines - Key #13
<input type="checkbox"/> Form T-72 - Rhode Island Public Service Corporation Gross Earnings Tax - Key #22
<input type="checkbox"/> Form T-74 - Rhode Island Banking Institution Excise - Key #11
<input type="checkbox"/> Form T-86 - Rhode Island Bank Deposits - Key #10
<input checked="" type="checkbox"/> Form RI-PTE - Pass-Through Entity Election - Key #82

The amounts and due dates of the installments for a calendar year filer are as follows:
25% of the taxable year tax by April 15th
50% of the taxable year tax by June 15th
75% of the taxable year tax by Sept 15th
100% of the taxable year tax by Dec 15th

Mail voucher and payment to:
RI Division of Taxation
One Capitol Hill
Providence, RI 02908

NOTE: If payment is made online, you do not need to send voucher in.

7. Once an entity has made an election to pay Rhode Island state income tax at the entity level, is the entity required to continue in future years?

No, the election is an annual election. An entity may make the election only for the years it benefits the owners.

8. How does paying the Rhode Island state income tax at the entity level benefit the owners?

Payment of a Rhode Island state income tax at the entity level is a deductible expense for the entity, which reduces the amount of income flowing through to the owners. Accordingly, the Schedule K-1 issued to the owners will reflect less income than would otherwise be reported. This results in a lower federal income tax for the owners.⁵

⁵ Assuming that the deduction, for federal tax purposes, is allowed under federal law for any given tax year. This publication is not a guide to federal taxation. Taxpayers and tax practitioners seeking to take advantage of Rhode Island's new entity-level tax for pass-through entities are urged to review current federal tax law, cases, regulations, and rulings to determine the tax treatment for federal tax purposes.

Note: No matter what type of pass-through entity is paying the entity-level tax, the entity must supply each of its owners with a copy of Form RI-1099E, showing the amount of entity-level tax paid by that owner. The owner then enters that amount on Schedule W of the owner's Rhode Island personal income tax return. The owner must attach a copy of the Form RI-1099E to his Rhode Island personal income tax return for substantiation purposes.⁶ The pass-through entity must submit a copy of Form RI-1099E to the Rhode Island Division of Taxation with its filing of Form RI-PTE. (Part of a draft of Form RI-1099E is reproduced below.)

<input type="checkbox"/> Check if amended	2. Payer's entity type <input type="checkbox"/> LLC <input type="checkbox"/> SMLLC <input type="checkbox"/> LLP <input type="checkbox"/> Sub S Corp <input type="checkbox"/> LP <input type="checkbox"/> Sole Prop. <input type="checkbox"/> Partnership <input type="checkbox"/> Trust	3. 2019 RI-1099E Fiscal year payers, enter fiscal dates , 2019 to , 2020	Rhode Island Pass-Through Entity Election
1. Payer's identification number			6. Recipient's identification number
4. Payer's name and address	5. Recipient's name and address		7. Recipient type <input type="checkbox"/> Individual <input type="checkbox"/> Pass-through <input type="checkbox"/> Other
			8. Recipient's percent of ownership
			9. Recipient's Share of RI-PTE Taxes Paid

9. What is the impact on the Rhode Island state income tax return of the owners?

A: The calculation of the Rhode Island personal income tax starts with federal adjusted gross income. If a pass-through entity pays Rhode Island's entity-level tax, less income will be reported by the entity to the entity owner. Therefore, the entity owner will report less federal adjusted gross income than he otherwise would on his Rhode Island personal income tax return.

The amount by which the entity-level tax reduces the owner's income is listed as a modification increasing federal adjusted gross income for Rhode Island purposes. This has the effect of increasing the Rhode Island modified gross income to the amount it would have been if the entity had not made the election to pay Rhode Island state income tax at the entity level. Also on his Rhode Island personal income tax return, the owner will claim a credit for his proportionate share of the Rhode Island state income tax paid by the entity. Thus, purely from a Rhode Island personal income tax standpoint, the owner will be in the same position as before.

10. How will the owner reflect the modification and credit on the owner's Rhode Island personal income tax on Form RI-1040?

The owners will report the modification on Rhode Island Schedule M. It is to be entered on page 2, line 2h and combined with all other allowable modifications. Total modifications are entered on Form RI-1040 or RI-1040NR, page 1, line 2.

⁶ Certain entities, such as subchapter S corporations and partnerships, will end up issuing a Schedule K-1 as well as a Form RI-1099E to each owner. Certain other entities, such as sole proprietorships reporting income and expenses on federal Schedule C, will end up issuing only a Form RI-1099E to the owner.

The credit is reported by the owners on Rhode Island Schedule W, using the letter code “E”. This credit amount is combined with all other withholding tax and entered on Form RI-1040, page 2, line 14a or RI-1040NR, page 2, line 17a.

11. Will there be a net increase or decrease in Rhode Island tax resulting from the election to pay Rhode Island state income tax by the entity?

The Rhode Island personal income tax will be unchanged if the entity elects to pay Rhode Island state income tax at the entity level. All tax savings will occur on the federal Form 1040.

This publication is an informal summary of certain aspects of recently enacted legislation and is for general information purposes only. It is not a substitute for Rhode Island General Laws, or for Rhode Island Division of Taxation regulations, rulings, or notices.

12. If an entity elects to pay Rhode Island state income tax at the entity level, will the entity still be required to withhold Rhode Island income tax for nonresident members and report on Form RI-1096PT?

No, if an entity elects to pay state income tax at the entity level it will not have to comply with the provision of R.I. Gen. Laws § 44-11-2.2 (“Pass-through entities – Definitions – Withholding – Returns”).

13. Can an entity elect to pay the Rhode Island state income tax on a portion of its income for the benefit of only some of the owners?

No. The entity elects in full or not at all.

14. If payments have been made directly by the owner, or if nonresident owners have been subject to withholding under R.I. Gen. Laws § 44-11-2.2, can those payments be transferred to the pass-through entity return?

No. Those payments were made pursuant to another section of the Rhode Island General Laws and will be claimed in the normal course of filing the appropriate returns.

15. If a Schedule C or Schedule E taxpayer elects to pay Rhode Island’s new entity-level tax, would that payment be deductible for federal tax purposes?

Schedule C and Schedule E taxpayers are urged to refer to federal statute and other federal sources to determine if their payment would be deductible for federal purposes.

TRANSITION YEAR

The following information for taxpayers and practitioners applies only for the transition year 2019:

If you are a cash-basis, calendar-year taxpayer and seek to take advantage of Rhode Island's new entity-level tax for pass-through entities for the 2019 tax year, payment is due no later than December 31, 2019, to be allowed as a deductible item for the 2019 tax year (assuming that the deduction is allowed by the Internal Revenue Service). You may make such payment electronically via the Division's portal: <https://taxportal.ri.gov/> or use the newly revised [Form BUS-EST](#) ("Business Tax Estimated Payment Form") and be sure to check the appropriate box. If you are an accrual-basis taxpayer, payments may be made in 2020 (for example, early March 2020) and be allowed as a deductible item for the 2019 tax year on the entity return (assuming that the deduction is allowed by the IRS). Rhode Island shall not treat such payment as a late payment. Therefore, such payment will not be subject to underestimating charges. To make such payment, see Form BUS-EXT (used for extensions) and Form BUS-V (the payment voucher).

BACKGROUND

Under legislation approved by the Rhode Island General Assembly and signed into law by Rhode Island Governor Gina M. Raimondo on July 5, 2019, pass-through entities – including sole proprietorships – may elect to pay an entity-level Rhode Island tax on net income at the rate of 5.99%.⁷

When figuring one's federal adjusted gross income for Rhode Island tax purposes, the pass-through entity's owner, member, partner, shareholder, or principal will add back his or her share of the entity-level tax by which net income was reduced.⁸ Once Rhode Island tax liability is determined, the pass-through entity's owner, member, partner, shareholder, or principal will receive a Rhode Island credit equal to his or her share of the tax payment made by the pass-through entity. The election applies to tax years beginning on or after January 1, 2019.

The Rhode Island Division of Taxation office is located at One Capitol Hill in Providence, R.I., diagonally across from the Smith Street entrance to the State House, and is open to the public from 8:30 a.m. to 3:30 p.m. business days. For more information, contact the Division of Taxation at (401) 574-8829 or see <http://www.tax.ri.gov/contact/>.

⁷ Rhode Island Public Law 2019, chapter 88, article 5, section 8, which established Rhode Island General Laws § 44-11-2.3 ("Pass-through entities --Election to pay state income tax at the entity level").

⁸ Accordingly, the Division is updating Schedule M ("RI Modifications to Federal AGI").