



Rhode Island Department of Revenue Division of Taxation

Seminar on Self-Audits and Sales/Use Tax: Agenda

Thursday, June 22, 2017, from 10:00 a.m. to 11:50 a.m.
Warwick Public Library, Central Library, 600 Sandy Lane, Warwick, R.I.

- 10:00 a.m. to 10:05 a.m.

Greetings

Neena S. Savage, Esq., Tax Administrator
or Michael F. Canole, CPA / Assistant Tax Administrator

- 10:05 a.m. to 10:10 a.m.

Housekeeping / Introduction

Neil Downing, EA, MST, CFP® / Chief Revenue Agent

PLEASE NOTE

This seminar is intended for businesses and professionals (not for consumers). It is for general information only and is not a forum for the discussion or resolution of pending audits, hearings, or appeals.

- 10:10 a.m. to 10:50 a.m.

Sales/Use Tax Bases for Business

Mohammed Jobe / Principal Revenue Agent, Excise Tax
Patrick Gengarella / Chief Revenue Agent, Field Audit

- *What is sales tax for business, and how does it work?*
- *What is use tax for business, and how does it work?*
- *How to register to collect and remit sales tax?*
- *How to remit – and how often to remit – sales tax?*
- *Other points, including brief summary of new account ID numbers and sales permits.*

- 10:50 a.m. to 11:45 a.m.

Self-Audit Program (Managed Audits)

Patrick Gengarella / Chief Revenue Agent, Field Audit
Kristen Ledo / Principal Revenue Agent, Field Audit

- *What is the self-audit program?*
- *How does it work?*
- *Examples of how it works.*
- *What are the advantages and potential stumbling points?*
- *How long does it take, and how much does it cost?*

- 11:45 a.m. to 11:50 a.m.

Closing Remarks

Michael F. Canole, CPA / Assistant Tax Administrator

Note: An official Certificate of Completion will be distributed at the end of the seminar to all those who have signed-in and who have attended the full session.

FOR MORE INFORMATION

The "Self-Audit" section of the Division of Taxation's website includes the self-audit application form, frequently asked questions, a poster, and additional information. To view or download, please use the following link: <http://go.usa.gov/3JexQ>.

Sales and Use Tax: For more information on sales/use tax, contact the Rhode Island Division of Taxation's Excise Tax section at (401) 574-8955 or Tax.Excise@tax.ri.gov.

Field Audit: For more information on self-audits, also known as managed audits, contact the Field Audit section at (401) 574-8962.

The Rhode Island Division of Taxation is located at One Capitol Hill in Providence, R.I., diagonally across Smith Street from the State House. It is typically open to the public from 8:30 a.m. to 3:30 p.m. business days.

Today's agenda and supporting documents will be posted at www.tax.ri.gov/onlineservices.

Thank you for attending.



WHAT'S A USE TAX?

If you buy something in Rhode Island -- such as a computer, business cards, or a broom -- you must pay the 7 percent sales tax.

But what if you buy the same thing from a seller located outside of Rhode Island -- and the seller does not charge sales tax?

In that case, you owe Rhode Island's 7 percent use tax.

So suppose you buy staplers, some tape, tape dispensers, paperclips, envelopes, and other administrative supplies for your business, for a total of \$1,000. And suppose you use a website, a catalog, or a toll-free number to make the purchases from an out-of-state vendor. If the out-of-state seller does not charge sales tax, you owe Rhode Island's

7 percent use tax. In this example, the tax is \$70.

If you did not pay the required use tax, you can apply for Rhode Island's new self-audit program. If you meet the program's rules,

and pay the tax you owe, the Division of Taxation will waive all penalties and forgive some of the interest.

The list (at right) shows some of the items that are subject to use tax. Examples (below) show who may owe use tax.



If you buy any of the following from an out-of-state seller, you probably owe Rhode Island use tax:

▪ **Computers**

Including desktops, laptops, printers, scanners, monitors, software, maintenance agreements, and related equipment.

▪ **Office Equipment**

Including copy and fax machines, calculators, file cabinets, telephone systems, humidifiers, dehumidifiers, video equipment, and related equipment.



▪ **Printed supplies**

Including desk calendars, business cards, manuals, and training books, directories, posters, and any related items.

▪ **Furniture**

Including desks, chairs, tables, lamps, cords, televisions, CD players, DVD players, and any related items.



▪ **Administrative Supplies**

Including checks, photocopies, paper, envelopes, folders, schedulers, books, staplers, tape, tape dispensers, clips, etc.

▪ **Cleaning Supplies**

Including mops, brooms, sponges, buckets, cleaning products, disposable gloves, and paper towels.



EXAMPLES OF WHO OWES THE USE TAX

Dentist

A dentist's office bought a big-screen TV screen for the waiting room, and dental equipment to examine patients. The out-of-state vendor who sold the \$2,500 in equipment to the dentist's office didn't charge sales tax. The dentist's office owes \$175 in Rhode Island's 7 percent use tax.

Lawyer

A law firm bought a copy machine, as well as business cards, desk calendars, paper, and other supplies, for a total of \$10,000 from an out-of-state seller, who did not charge sales tax. The law firm owes \$700 in Rhode Island use tax.

Contractor

A building contractor buys, through an out-of-state seller, a total of \$25,000 in drills and specialty tools to use on jobs. The seller does not charge sales tax. The contractor owes \$1,750 in Rhode Island use tax.

Questions? See our website, www.tax.ri.gov, or call us at (401) 574-8962.

RHODE ISLAND DIVISION OF TAXATION FILING CALENDAR FOR 2017

SALES/M&B/HOTEL/PREPAID WIRELESS/ AND FORM RI-8478 RESIDENTIAL DWELLING

MONTHLY PERIOD ENDING	File Pd	FILING DUE DATE
JANUARY	31 1	Feb 21 17
FEBRUARY	29 2	Mar 20 17
MARCH	31 3	Apr 20 17
APRIL	30 4	May 22 17
MAY	31 5	Jun 20 17
JUNE	30 6	Jul 20 17
JULY	31 7	Aug 21 17
AUGUST	31 8	Sep 20 17
SEPTEMBER	30 9	Oct 20 17
OCTOBER	31 10	Nov 20 17
NOVEMBER	30 11	Dec 20 17
DECEMBER	31 12	Jan 22 18

HARD TO DISPOSE - HEALTH CARE AND BEVERAGE CONTAINER

MONTHLY PERIOD ENDING	File Pd	FILING DUE DATE
JANUARY	31 1	Feb 27 17
FEBRUARY	29 2	Mar 27 17
MARCH	31 3	Apr 25 17
APRIL	30 4	May 25 17
MAY	31 5	Jun 26 17
JUNE	30 6	Jul 25 17
JULY	31 7	Aug 25 17
AUGUST	31 8	Sep 25 17
SEPTEMBER	30 9	Oct 25 17
OCTOBER	31 10	Nov 27 17
NOVEMBER	30 11	Dec 26 17
DECEMBER	31 12	Jan 25 18

REAL ESTATE CONVEYANCE

MONTHLY PERIOD ENDING	File Pd	FILING DUE DATE
JANUARY	31 1	Feb 15 17
FEBRUARY	29 2	Mar 15 17
MARCH	31 3	Apr 17 17
APRIL	30 4	May 15 17
MAY	31 5	Jun 15 17
JUNE	30 6	Jul 17 17
JULY	31 7	Aug 15 17
AUGUST	31 8	Sep 15 17
SEPTEMBER	30 9	Oct 16 17
OCTOBER	31 10	Nov 15 17
NOVEMBER	30 11	Dec 15 17
DECEMBER	31 12	Jan 16 18

* * * * Q U A R T E R L Y * * * *

SALES/M&B/PREPAID WIRELESS

QUARTERLY PERIOD ENDING	File Pd	FILING DUE DATE
MARCH	31 1	May 01 17
JUNE	30 2	Jul 31 17
SEPTEMBER	30 3	Oct 31 17
DECEMBER	31 4	Jan 31 18
ANNUAL (FUEL)	A A	Jan 31 18



Rhode Island Department of Revenue

Division of Taxation

ADV 2017-18
SALES AND USE TAX

ADVISORY FOR TAX PROFESSIONALS
JUNE 8, 2017

Individualized account numbers for holders of sales permits

Division of Taxation also preparing to send out sales tax coupon booklets and permits

PROVIDENCE, R.I. – In an effort to improve consistency and security, and to embrace best practices, the Rhode Island Division of Taxation has assigned individualized account identification numbers to retailers and other holders of sales permits.

The change, which officially takes effect July 1, 2017, is intended to result in greater ID protection and more security for retailers and other permit holders, particularly by limiting use of the retailer's federal Employer Identification Number or other such tax ID number.

In addition, the change will allow the Division of Taxation to post a retailer's or other permit-holder's information to the Division's new agency-wide computer system more efficiently and effectively. For example, the change will improve the speed and accuracy with which a retailer's payments of sales and use tax are credited to the retailer's account. This will prove especially helpful for retailers with multiple locations.

Many retailers have multiple bank accounts – and a separate account number for each. Many retailers also have different loans outstanding – and a separate account number for each. Similarly, each retailer will now have multiple account ID numbers with the Division of Taxation.

ELECTRONIC FILERS: LIMITED IMPACT

The overwhelming majority of retailers file electronically and they will see little impact. For example, electronic filers typically remit tax by using the Division of Taxation website for business tax filings: <https://www.ri.gov/taxation/business/index.php>. They will continue to use that site, and will continue to use their 11-digit Rhode Island Identification Number and password to log in at that site. They will continue to select, from a menu, the tax type for which they are filing (sales/use tax, or meals-and-beverage tax, for example).

The Division of Taxation is in the process of developing a portal through which businesses will be able to remit tax, make various payments, and take certain other steps online. Even after the portal is fully functional, however, users will see little impact from the new account ID number system: Users will simply create their own account for the portal, including their own login and password, and – once logged in – will select from a menu the tax type for which they are filing and remitting tax.

PAPER FILERS: LIMITED IMPACT

The impact on paper filers also will be limited. For example, the Division of Taxation plans to start mailing out sales tax coupon booklets soon. Each booklet will contain the retailer's sales permit, as well as coupons for remitting tax.

The permit will have its own account ID number, which the paper filer will use for purposes of annual permit renewal. However, the paper filer will be mailed a renewal form, which will have the account ID number on it. So the paper filer need take no extra steps. (This assumes that the paper filer uses the pre-printed form, instead of a blank form, to renew. If the paper filer uses a blank form downloaded from the Division website, all the filer need do is enter his or her new account ID number – the one on the permit.)

The paper filer will have a separate account ID number for remitting tax. However, that account ID number will already be printed on each coupon. Therefore, the paper filer need take no extra steps; he or she should simply remit the appropriate pre-printed coupon with payment. (Even if the paper filer uses a blank form downloaded from the Division website, all the filer need do is enter his or her new account ID number – the one assigned for remitting tax.)

YOUR NEW ACCOUNT ID NUMBERS

If you hold a Rhode Island sales tax permit, the Division of Taxation will soon send you a mailing which will include your new account ID numbers. The mailing will go to permit-holders who:

- have renewed their sales tax permits for the year which begins July 1, 2017;
- paid the required \$10 permit renewal fee; and
- are not delinquent on their Rhode Island state taxes.

If you have not renewed your permit, use the renewal form that was mailed to you or use the blank form available at the Division website (see screenshot below).

Assuming that you have paid the required \$10 annual permit renewal fee, and that you are current on your State of Rhode Island taxes, you will receive your new sales permit as well as your new account ID numbers. Following is a link to the blank form:

http://www.tax.ri.gov/forms/2016/Excise/SalesUse/STREN_1D_m.pdf

The image shows a form titled "STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS" and "DIVISION OF TAXATION - ONE CAPITOL HILL - PROVIDENCE, RI 02908". It is a "RETAIL SALES PERMIT RENEWAL APPLICATION" due on or before February 1, 2017. The form includes fields for NAME, ADDRESS, CITY, STATE & ZIP CODE, SIGNATURE OF OWNER, PARTNER OR AUTHORIZED AGENT, TITLE, PERMIT NUMBER, and TAXPAYER IDENTIFICATION NUMBER. A large "STREN" logo and a barcode are present, with the number 16127099990101 below the barcode. The "TAX YEAR" is listed as JULY 1, 2017 - JUNE 30, 2018, and the "Sales Tax Renewal Fee" is \$10.00. Instructions at the bottom state: "Please mail this form with remittance separately. Do not mail with a return. Mail this form and remittance payable to: Rhode Island Division of Taxation, One Capitol Hill, Providence, RI 02908."

STILL HELPFUL TO KEEP TRACK

Whether the retailer files electronically or on paper, it will still be important for the retailer (and for the retailer's bookkeeper, accountant, or other adviser) to keep track of the new Division of Taxation account ID numbers, much like the retailer keeps track of multiple bank account or loan ID numbers now.

For example, if you are a retailer:

- A different account ID number will apply for each function related to your account, such as remitting sales/use tax, filing the annual sales tax reconciliation, and renewing your sales permit.
- A different account ID number will apply for any tax type or fee you need to remit, such as meals-and-beverage tax, hotel tax, hard-to-dispose materials tax, and prepaid wireless tax.
- If you are a retailer with multiple locations, each location will have its own account ID number.
- Your sales permit itself will have its own account ID number, which will appear on the new permit you will soon be mailed, covering the year which begins July 1, 2017. (You will use the account ID number shown on your sales permit only for purposes of renewing the sales permit. You will use a separate account ID number to remit sales/use tax.)

ACCOUNT ID EXAMPLES

Following are some examples of how the new account ID number system will work.

Example # 1

Suppose that ABC Jewelry Inc. is a retailer with one location, in Providence, and sells only jewelry. For the year which begins July 1, 2017, and for later years, ABC Jewelry Inc. will, solely for excise tax purposes, have three separate account ID numbers, one for each of the following:

- sales permit
- sales tax remittance
- annual sales tax reconciliation

Example # 2

Suppose that Sally Smith of North Kingstown is an artist who sells one-of-a-kind or limited-edition artwork and holds a sales tax exemption certificate for the sale of her work. For the year which begins July 1, 2017, and for later years, Sally will, solely for excise tax purposes, have three separate account ID numbers, one for each of the following:

- sales permit
- sales tax remittance
- annual sales tax reconciliation

Example # 3

XYZ Restaurant Inc. has two restaurant locations: one in Cranston, the other in Warwick. XYZ Restaurant Inc. must collect and remit sales tax as well as meals-and-beverage tax. Thus, for the year which begins July 1, 2017, and for later years, XYZ Restaurant Inc. will, solely for excise tax purposes, have separate account ID numbers for a number of items. However, how many separate account ID numbers will depend on whether XYZ Restaurant Inc. files separate returns for each of its locations, or if XYZ Restaurant Inc. files for excise tax purposes on a consolidated basis.

If XYZ Restaurant Inc. files separate returns for each location

Cranston location:

- sales permit for Cranston site
- sales tax remittance for Cranston site
- meals-and-beverage tax remittance for Cranston site
- annual sales tax reconciliation
- litter permit

Warwick location:

- sales permit for Warwick site
- sales tax remittance for Warwick site
- meals-and-beverage tax remittance for Warwick site
- annual sales tax reconciliation
- litter permit

If XYZ Restaurant Inc. files on a consolidated basis:

- sales permit for Cranston site
- sales permit for Warwick site
- litter permit for Cranston site
- litter permit for Warwick site
- sales tax remittance for both sites consolidated
- meals-and-beverage tax remittance for both sites consolidated
- annual sales tax reconciliation for both sites consolidated

SALES TAX COUPON BOOKLETS

By the end of June 2017, the Division will begin mailing sales tax coupon booklets. The booklets are for the approximately 5,100 retailers who remit their monthly or quarterly sales tax by check; a coupon must accompany each payment. (Because the majority of the approximately 30,000 permit-holders file electronically, they do not need coupon booklets.)

Each coupon booklet will also contain the new sales permit covering the year which begins July 1, 2017. (As noted earlier in this Advisory, each sales permit will contain a unique account ID number. Also as noted earlier in this Advisory, each sales tax coupon booklet will contain a unique account ID number, which will be printed on the coupons. The sales permit account ID number is for purposes of renewing the permit. The account ID number on the sales coupons is for remitting tax.) If you renewed your permit, but do not receive your booklet by July 1, 2017, you may continue using the old one until the new one arrives.

OTHER POINTS

Following are some other points to keep in mind:

- If you are an electronic sales tax filer, and your account is not blocked because of delinquent taxes, and you have renewed your sales permit and paid the associated \$10

annual renewal fee, the Division will mail your new permit in July or August. You will not receive a sales tax coupon booklet. However, you will soon receive a mailing so you can see your new account ID numbers.

- A cigarette tax license/permit must be obtained by those who wish to sell tobacco and other tobacco products. Each location must obtain its own license and therefore will have its own new account ID number. Cigarette dealer's license permits are to be mailed in late June.
- For hotels and for those who rent out residential dwellings, there will be a different account ID number for each hotel / residential dwelling filing account.
- Each nine-digit account ID number will have a total of nine numbers. In most cases, your account ID number will be shown as nine numbers separated by hyphens or dashes, such as the following: 9-9999-9999. (In certain instances, the account ID number may be shown as nine numbers in succession, with no hyphens or dashes.)
- The Division will soon be mailing out coupon booklets for the hotel tax, tax on hard-to-dispose material, meals-and-beverage tax, and prepaid-wireless tax.

CONTACT INFORMATION

For more information about Rhode Island sales tax, use tax, sales permits, or related matters, contact the Division of Taxation's Excise Tax section at (401) 574-8955 from 8:30 a.m. to 3:30 p.m. Eastern Time business days, or email Tax.Excise@tax.ri.gov. The 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.

ADV 2017-18
REVISED JUNE 8, 2017



SELF-AUDIT FOR USE TAX

News
about your
taxes

*A message for businesses and tax professionals from the
Rhode Island Division of Taxation*

In Rhode Island's voluntary self-audit program, you examine your business's books and records to see if you owe Rhode Island's 7% use tax. For example, use tax would be owed if your business:

- ◆ bought computer equipment from an out-of-state vendor for which Rhode Island sales tax was not collected;
- ◆ purchased office supplies online and no Rhode Island sales tax was collected; or
- ◆ bought furniture in another state and paid that state's 5% sales tax. (In this case, you would owe the difference to Rhode Island in the form of use tax.)



Under the Rhode Island Division of Taxation's new self-audit program, a business audits its own books and records to see if the business has a previously undisclosed Rhode Island use tax liability.

To start, the business submits an application to the Tax Division, which oversees and manages the entire process. The Tax Division reviews the application to see if it meets the program's criteria.

If the application is approved, the self-audit is completed in accordance with the program's guidelines, and the business pays what it owes (the tax is 7 percent), the Tax Division can waive penalties and some interest.

There is an application to complete and other steps involved. For more information, contact the Tax Division's Field Audit section at (401) 574-8962 from 8:30 a.m. to 3:30 p.m. business days, or see the agency's website: <http://go.usa.gov/3JexQ>



RHODE ISLAND DIVISION OF TAXATION

One Capitol Hill
Providence, R.I. 02908

The self-audit program is authorized under RIGL § 44-19-43. It was part of the budget bill enacted June 30, 2015 (H 5900 Substitute A as amended).

SELF AUDIT - APP

Managed Audit Application

Applicant legal name		FEIN/social security number	
Business name (if different from above)			
Physical address	City, town or post office	State	ZIP code
Mailing address (include apt., office or unit #, if any)	City, town or post office	State	ZIP code
Contact person/authorized representative		Telephone number () -	
Date operations commenced in Rhode Island / /	E-mail address		

Type of business: Individual Corporation Partnership Other (specify) _____

Explain business activity: _____

Ownership Information: Enter the names, titles, social security numbers and residence addresses of principal officers of a corporation or of members, partners, owners, etc.

Name	Title	Social security number	Address	City or Town/State/ZIP

Answer the following questions by circling the appropriate response:

1. Do you currently possess a valid Rhode Island sales tax permit? Yes No
2. Do you consistently file timely, accurate and paid returns with this state according to Rhode Island Law? Yes No
3. What tax types and tax returns does this business file with this state on a monthly, bi-monthly, quarter-monthly, quarterly or annual basis?

4. Do you have the time, resources and personnel to complete a managed audit in: (select one) 60 days 90 days 120 days
5. Is the source documentation such as chart of accounts, depreciation schedules, federal and state returns, purchase journals with invoices, and other pertinent documentation readily available and accessible for all periods of the audit? Yes No
6. Has your business or any related company, filed for bankruptcy within the last ten years? Yes No
7. Have you ever received a declaratory ruling or any type of written ruling from the Division of Taxation or its representatives? Yes No
If yes, have you complied? Yes No
8. Has the Division of Taxation performed any type of audit on this entity or any other related entity in the last five years? Yes No
9. Are you prepared to remit full payment of tax and any interest assessed at the time of completion? Yes No

Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, accurate and complete.

Authorized signature	Print name	Title	Date
Applicant signature	Print name	Date	Telephone number

SELF-AUDIT PROGRAM: FAQs

To provide guidance to taxpayers and their advisers, the Division of Taxation has drafted the following answers to frequently asked questions (FAQs) about the new self-audit program, which is managed by the Division of Taxation. This document is for general information purposes only and is not a substitute for Rhode Island General Laws or Division of Taxation regulations or formal rulings.

OVERVIEW

Q: What is a self-audit?

A: You perform an audit of your books and records to see if you owe Rhode Island's 7 percent use tax. You then submit the results of your audit, along with payment for the tax due, to the Rhode Island Division of Taxation.¹

Q: How do I benefit?

A: If your self-audit meets all of the program's requirements and is approved by the Tax Division, and you pay the tax due, the Tax Division will waive all penalties – and forgive two-thirds of the interest.² Furthermore, the Tax Division will agree not to audit you for the period and tax type involved in your self-audit.³

Example # 1

In mid-November 2015, Alpha Corp. applies for, and is accepted into, the self-audit program managed by the Tax Division. Alpha then examines its own books and records – covering the 36-month period of October 2012 through September 2015 – to determine if it owes use tax and finds that it does. Alpha completes the self-audit in accordance with all of the program's requirements – the self-audit is finished on time, the tax is paid on time,

¹ The Rhode Island Division of Taxation is also referred to in these FAQs as “the Tax Division”.

² The Tax Division will waive two-thirds of the interest if the applicant completes the self-audit within the allotted time, the results are accurate, and no additional documentation or information is needed. Otherwise, the Tax Division may waive one-third of the interest.

³ The benefits apply if neither the self-audit nor the information reviewed by the Tax Division discloses fraud or willful evasion of tax.

the self-audit results are accurate, and no additional information or documentation is needed. As a result, the Tax Division waives all penalties, forgives two-thirds of the interest, and will not audit Alpha for use tax for the 36-month period of October 2012 through September 2015.⁴ (If Alpha fails to meet one or more of the program’s requirements, Alpha may still be eligible for all of the program’s benefits, but when it comes to interest, the Tax Division will forgive no more than one-third.)

Q: Is there any oversight of the self-audit?

A: Yes. The Tax Division oversees each self-audit, from application to completion. If someone’s application for the program is approved, a revenue agent is assigned to guide the taxpayer through the process. (The revenue agent will typically be stationed at the Tax Division office in Providence, but will be available to answer the taxpayer’s questions, usually by phone or email.) In addition, the Tax Division has the right:

- to approve or reject your application for the program;
- to approve or reject the results of your self-audit;
- to ask you for additional documentation; and
- to conduct a physical inspection of your place of business to verify the accuracy of your self-audit.

In summary, although it is a self-audit, it is done under the guidance, monitoring, and oversight of the Rhode Island Division of Taxation.⁵

At a glance: Benefits of self-audit program	
<i>If all of the following requirements are met...</i>	<i>the Tax Division will ...</i>
• you complete the self-audit on time;	• waive all penalties;
• you pay the correct amount of tax on time;	• levy 6% interest per year instead of 18%*;
• the self-audit results are accurate; and	• agree not to audit you for tax type and period.**
• no additional information, documents needed	
* If you do not meet all of the requirements above, but the Tax Division determines that you are still eligible for the program’s benefits, interest will be 12% per year instead of 18%.	
** The agreement is only for the tax type and period involved in the self-audit.	

WHO IS ELIGIBLE?

Q: Is the self-audit program open to businesses only?

A: It is open to businesses and individuals.

⁴ The names of corporations or other entities used in examples in these FAQs are not intended to represent the names of actual businesses.

⁵ The statute that governs the program, Rhode Island General Laws (RIGL) § 44-19-43, uses the term “managed audit” instead of “self-audit”.

Q: Is the program for all tax types?

A: For now, it is only for the use tax. Eventually, the program may be broadened to include the sales tax. The Tax Division will make an official announcement regarding any expansion of the program.

Q: Is the program for all taxpayers?

A: For now, sales tax permit holders are excluded from the program. Thus, retailers are not eligible due to the potential complexity involved (retailers typically collect sales tax but pay use tax). Put another way, the program, for now, is open only to non-retailers – that is, only to those that do not have a Rhode Island sales tax permit. Eventually, however, all taxpayers – including retailers – may be eligible, and the program may be expanded to include sales tax. The Division of Taxation will make a formal announcement regarding any expansion of the program.

Q: Is this program open only to residents?

A: It is open to residents and nonresidents, business and individuals. However, as a general rule, nonresident businesses and individuals should first determine whether a separate program, the Voluntary Disclosure Program, may be better suited to them. More information is on the program website: http://www.tax.ri.gov/misc/voluntary_disclosure.php

Q: Is anybody else not eligible for the self-audit program managed by the Tax Division?

A: You are not eligible if any of the following apply:

- you hold a Rhode Island sales tax permit;
- you are under audit now by the Tax Division;
- you have been audited by the Tax Division within the five-year period immediately preceding your application;
- you have an appeal pending involving a Tax Division matter; or
- you have been in federal bankruptcy or state receivership proceedings.

TAX TYPE

Q: Why is the program open only to the use tax for now?

A: Legislation authorizing the program was enacted only recently.⁶ The Tax Division continues to work on implementing it. So, for now, the program is limited to the use tax.

Q: What is a use tax?

A: If you buy a taxable item without paying sales tax, you owe the 7 percent use tax.⁷ For example, if you buy a laptop computer online and no sales tax is collected on that purchase, you owe Rhode Island's 7 percent use tax. The tax is due on the sales price – including all services necessary to make the sale (such as maintenance and delivery charges).

⁶ House Bill 5900 Substitute A as amended, art. 11, § 9, to be codified at RIGL § 44-19-43.

⁷ See RIGL § 44-18-20.

The tax rate is the same for both the sales tax and the use tax and the exemptions are the same, too. Sellers collect Rhode Island sales tax and pay it over to the Tax Division, whereas the use tax is self-assessed – it is paid by the purchaser, the end user, directly to the Tax Division.

At a glance: Examples of businesses that may owe use tax

- A law firm buys or leases a copy machine – and no Rhode Island sales tax is charged.
- An accounting firm buys or leases software – and no Rhode Island sales tax is charged.
- A dentist’s office buys or leases computer hardware – and no Rhode Island sales tax is charged.
- A machine shop buys office supplies online – and no Rhode Island sales is charged.

Q: Could you provide some detailed examples of businesses that owe use tax but may not be aware of it?

A: Following are some detailed examples:

Example # 2

ABC Law Firm bought \$10,000 in office equipment and related supplies from an out-of-state vendor online, through a catalog, or via a toll-free number. The out-of-state vendor charged no sales tax. ABC Law Firm owes Rhode Island’s 7 percent use tax on the office equipment and related supplies. In this example, the tax is \$700.

Example # 3

DEF Dental, a dentist’s office, bought a large-size TV screen for its waiting room as well as dental equipment to examine its patients. The TV screen and the equipment were purchased for a combined total of \$2,500 from an out-of-state vendor, which charged no sales tax. DEF Dental owes Rhode Island’s 7 percent use tax. In this example, the tax is \$175.

Example # 4

GHI Insurance downloaded prewritten software for use in its business. No sales tax was charged by the vendor on the price of \$5,000. GHI Insurance owes Rhode Island’s 7 percent use tax. In this example, the tax is \$350. [That is the case even if the prewritten software is specific to the insurance industry. However, if it is truly customized software, no tax is due. “Customized” essentially means software that is created and written expressly for you and nobody else.]

Example # 5

JKL Contracting bought \$17,000 in equipment that it uses in the performance of a contract. JKL purchased the equipment from a store in Massachusetts, which charged sales tax at a rate of 6.25 percent, for a total of \$1,062.50. JKL paid no Rhode Island sales tax on the equipment. In this example, JKL owes \$127.50 in Rhode Island use tax. That is because JKL is eligible for a credit for sales tax paid to another jurisdiction. In this example, JKL applies the Massachusetts sales tax rate of 6.25 percent against the Rhode Island use tax rate of 7 percent. The difference is 0.75 percent. (Please see table below.)

Table for Example # 5	
Rhode Island use tax @ 7%	\$ 1,190.00
(Massachusetts sales tax paid @ 6.25%)	(\$ 1,062.50)
Net Rhode Island use tax due	= \$ 127.50
Example shows gross Rhode Island use tax owed on \$17,000 purchase, less credit for sales tax paid to Massachusetts on that purchase, equals net Rhode Island use tax due.	

Example # 6

MNO Salon paid \$4,500 for chairs for the salon's waiting room. MNO bought the chairs from a store in Connecticut, which charged Connecticut's 6.35% percent sales tax. MNO paid no Rhode Island sales tax on the furniture. In that case, MNO owes \$29.25 in Rhode Island use tax. That is because MNO is eligible for a credit for sales tax paid to another jurisdiction. In this example, MNO applies the Connecticut sales tax rate of 6.35 percent against the Rhode Island use tax rate of 7 percent. The difference is 0.65 percent. (Please see table below.)

Table for Example # 6	
Rhode Island use tax @ 7%	\$ 315.00
(Connecticut sales tax paid @ 6.35%)	(\$ 285.75)
Net Rhode Island use tax due	= \$ 29.25
Example shows gross Rhode Island use tax owed on \$4,500 purchase, less credit for sales tax paid to Connecticut on that purchase, equals net Rhode Island use tax due.	

APPLICATION PROCESS

Q: Is there an application form available?

A: The application form, and other information, is available on the Tax Division's website under the "self-audit" section: <http://go.usa.gov/3JexQ>

Q: How will the program work, step-by-step?

A: Following is a summary of the process:

APPLY: You must file a formal application with the Tax Division. Once you apply, the Tax Division will respond, in writing, within 30 days to let you know whether your application has been approved or denied.

APPROVAL: If your application for the program is approved, the Tax Division will assign your case to a revenue agent from the agency's Field Audit section. The letter that the revenue agent mails to you, confirming that your application has been approved, will also include lists of documents you will be required to gather and submit, and other information. The Tax Division will also assign you an "audit period" - in other words, the period of time that the audit should cover; it's the period on which you will focus to see if you have any delinquent use tax. (It's typically the last three years, or the period from when your business's operations began, whichever is shorter.)⁸

AUDIT: The Tax Division's letter will confirm the time frame within which you must complete the self-audit (typically 60, 90, or 120 days, depending on various factors, such as the number of records that will have to be examined as part of the self-audit).

RESULTS: Submit your completed audit on time, with payment of the tax due and with the required documentation. Once the Tax Division receives your submission, the agency will have 30 days to confirm your results. During that time, the agency will, among other things, review your submission for accuracy, check it for math errors, and determine if the required documents are included. The agency may also review your depreciation schedules, general ledger, and purchase invoices, among other things; request additional information; or perform an on-site inspection.

IMPACT: If your-self audit results are accepted, penalties will be waived. You'll be billed for interest, but at a reduced rate. In addition, the Tax Division will not audit you for the tax type and time period covered in your self-audit.

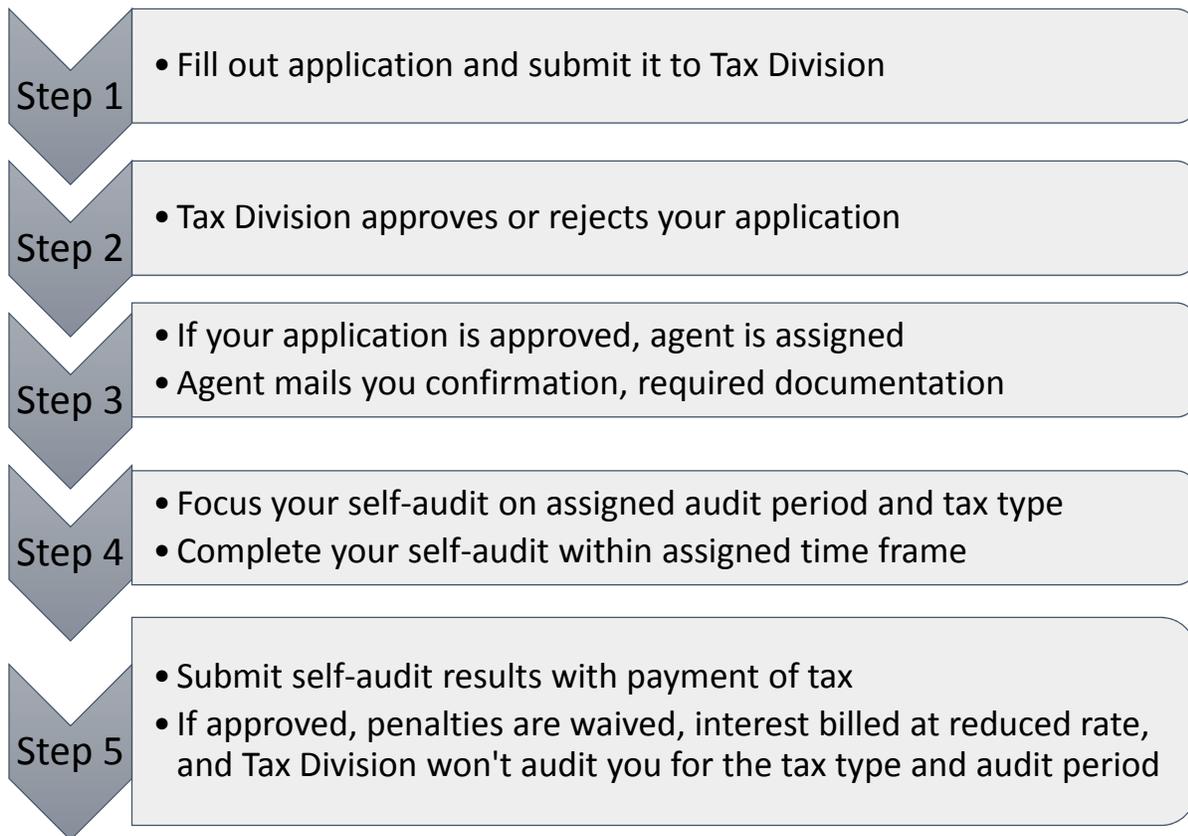
Example # 7

Dorr, Burnside, Lippitt & Sprague, LLP, a well-established Providence law firm, each year buys software, which the firm uses to create legal documents and bill clients. The software is widely available in the industry and costs \$5,000 a year. The firm buys the software online from a remote seller; no sales tax is charged. During its self-audit, the firm discovers that it has never paid Rhode Island's 7 percent use tax on those purchases. It pays the tax due to the Division of Taxation: \$350 a year for 2013, 2014, and 2015, for a total of \$1,050 in tax. The results of its self-audit are filed in a timely and accurate manner. The Division of Taxation approves the result, waives penalties, and bills the firm at a rate of 6 percent interest per year,

⁸ If you are a non-filer, the audit period is typically six years.

instead of at a rate of 18 percent per year that would otherwise be due. (The firm pays one-half of 1 percent per month for each month that the tax was not paid.) The Division of Taxation agrees not to audit the firm for use tax for 2013, 2014, and 2015.

Following is an at-a-glance guide to the steps involved in the self-audit process as managed and overseen by the Tax Division.



OTHER MATTERS

Q: If I am accepted into the program, what if I have more questions?

A: You may call or email your revenue agent at any time during the process if you have questions or need guidance. The Tax Division reserves the right to request additional documentation regarding the self-audit. The agency also reserves the right to conduct a physical inspection of your place of business to verify the accuracy of the audit.

Q: How often can I take part in the program?

A: Only once per three-year period. One of the goals of the self-audit program is to encourage ongoing compliance with use tax requirements by participants after the initial self-audit. In other words, once you complete the self-audit, you will be expected to file any future use tax liability on a timely basis, using Form T-205: <http://www.tax.ri.gov/forms/1999/excise/t205.pdf>.

You still may submit a program application to the Tax Division for another three-year period and the Tax Division will review the application. If there are circumstances that demonstrate that you may be eligible for another self-audit, the Division will review your application, taking into account that you may have already received the benefits of penalty and interest forgiveness in a prior self-audit.

Example # 8

Oakland, Mapleville, and Bridgeton, an accounting firm in Burrillville, takes part in the Tax Division's self-audit program for the three-year audit period covering 2012, 2013, and 2014. The firm could apply under the program again at some point, but if such future application were approved, the audit period could not include 2012, 2013, or 2014. Also, if the firm incurs use tax liabilities after its first self-audit under the program (the one covering 2012, 2013, and 2014 in this example), the firm should submit those taxes on Form T-205: <http://www.tax.ri.gov/forms/1999/excise/t205.pdf>

Q: Please elaborate on how much interest the Tax Division will forgive.

A: If you complete the self-audit in the allotted time, the results are accurate, and no additional information or documentation is required, the Tax Division will forgive two-thirds of the interest. Thus, instead of billing you for 18 percent interest per year, the agency will bill you for 6 percent interest a year.⁹ However, if you fail to complete the self-audit in the allotted time, or if the initial results are inaccurate, or if the Tax Division requires additional information or documentation, the agency may bill you for 12 percent interest per year rather than the usual 18 percent.

Q: Are there any other factors the Tax Division will take into account in determining whether I can take part in the program?

A: The agency will take a number of items into account in determining whether you can participate in the program. For instance:

- Do you consistently file tax returns on time with the State of Rhode Island – returns that are accurate and that reflect full payment in accordance with Rhode Island law?
- What tax types and tax returns do you file with Rhode Island on a monthly, bi-monthly, quarter-monthly, quarterly or annual basis?
- Do you have the time, resources, and personnel to complete a self-audit managed by the Tax Division within a certain amount of time?
- Are the documents related to the self-audit readily available and accessible for all of the audit periods? (Such documents may include depreciation schedules, federal and state

⁹ Under RIGL § 44-1-7, the interest rate on delinquent tax payments has been set at 18 percent per year since 2006.

returns, purchase journals with invoices, a chart of accounts, and other pertinent paperwork.)

- Has your business – or any related company – filed for protection from creditors under federal bankruptcy law or state receivership law within the last 10 years?
- Have you ever received a declaratory ruling or any type of written ruling from the Division of Taxation or its representatives?
- Has the Division of Taxation performed any type of audit of your business – or of any related entity – in the last five years?
- Are you prepared and able to make full payment of tax due, and of any interest assessed, at the time of completion?

Keep in mind that the program is aimed chiefly at two types of cases:

- non-filers, and
- filers that are unaware (prior to the self-audit) that they have a tax liability.

Q: Have any other states offered a similar program?

A: Vermont and Pennsylvania are among the states that have offered similar programs. Various states use different terms to describe their programs. Vermont has used the term “self-audit” to describe its program; we are using that term, too.

Q: Do I have to be invited by the Division of Taxation to participate in the program?

A: No. Nearly everybody is eligible to participate. The program application contains more details. (Please note, however, that the program at this time is limited only to use tax, and is not open to retailers.) The Division of Taxation recently began a mailing to about 9,600 businesses and individuals to provide them with information about the program. The mailing includes a letter, a flier, and an application. But the mailing is intended mainly to kick things off; you need not be on the mailing list to participate in the program.

Q: Suppose I’m eligible for the program but decide not to participate?

A: If you choose not to participate in the self-audit program, you may be subject at some point to a full audit by a revenue agent of the Division of Taxation’s Field Audit section. Such an audit will be for a period of at least six years; it will not be limited to the three-year period available under the self-audit program. If the Division of Taxation audit unearths use tax liability, you will owe not just the tax, but also a 10 percent penalty as well as 18 percent per year in interest.

Q: Where can I get more information about the program, including an application?

A: The “self-audit” section of the Tax Division’s website contains more information, including the program’s application and other documents: <http://go.usa.gov/3JexQ>

This document contains an informal, plain-language summary of certain provisions of recently enacted legislation, H 5900Aaa. These FAQs are not a substitute for Rhode Island General Laws or for Rhode Island Division of Taxation regulations or rulings. Nothing contained in these FAQs in any way alters or otherwise changes any provisions of Rhode Island statutes, regulations, or formal rulings.
