

# RHODE ISLAND TAX NEWS

A NEWSLETTER FOR TAX PROFESSIONALS

SPECIAL EDITION: FILING SEASON 2016

## WHAT'S NEW FOR FILING SEASON

Some businesses will see tax relief this filing season -- and so will some individuals.

It is the first filing season that eligible businesses and individuals can claim certain tax incentives that were

proposed by Governor Gina M. Raimondo last year and approved by the General Assembly, incentives that are aimed at creating and expanding businesses and jobs.

It is also the first filing

season in which preparers and taxpayers will encounter a sharply lower corporate income tax rate, a new apportionment formula, and a change in the reporting rules for certain businesses.

There's a change in the filing deadline -- it will be April 18 this year (due mainly to the celebration of Emancipation Day in Washington, D.C.).

Preparers and taxpayers will also find this season an increase in the property-tax relief credit and a change in the earned income credit formula.

*Coverage of the 2016 filing season, for tax year 2015, starts on page 2.*



**Tax Topics:** More than 120 tax preparers attended the Division of Taxation's "Seminar for Tax Preparers" (see above) held at the Community College of Rhode Island's Knight Campus in Warwick on November 18, 2015.

## DRIVER'S LICENSE REQUIREMENT

Rhode Island and most other states will ask taxpayers to provide their driver's license information this filing season, as part of the process of filing their Rhode Island resident and nonresident income tax returns for tax year 2015.

Rhode Island and most other states also will ask preparers to enter the driver's license information into their tax preparation software program where indicated.

It is part of a coordinated and collaborative effort

among the states, the Internal Revenue Service, tax software providers, and others to help combat tax refund fraud.

*For more about the driver's license information requirement, please see page 5.*



### SPECIAL EDITION: FILING SEASON

Sweeping changes to Rhode Island's corporate income tax structure took effect for tax years beginning on or after January 1, 2015. Those changes will first be encountered now, in the 2016 filing season. They are summarized in this edition of *Rhode Island Tax News*, starting on page 7.

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## FILING SEASON: APRIL 18 FILING DEADLINE

The filing and payment deadline for Rhode Island resident and nonresident personal income tax returns this season will be April 18, 2016.

The reason has to do with Emancipation Day.

Internal Revenue Code § 7503, says, in part, that when the filing deadline falls on a legal holiday, the deadline is moved to the next day which is not a Saturday, Sunday, or a legal holiday.

The term “legal holiday” includes a legal holiday in the District of Columbia. Eman-

ipation Day is observed in the District, and this year, it will be observed in the District on Friday, April 15.

As a result, the usual April 15 federal income tax filing deadline will be pushed to the next business day -- Monday, April 18.

Under Rhode Island Division of Taxation Regulation PIT 98 -7, Rhode Island typically follows federal rules on filing deadlines in such circumstances. Thus, Rhode Island’s deadline this year will also be April 18, 2016.

### For more information

To learn more about the federal deadline for this filing season, see IRS Revenue Ruling 2015-13:

<https://www.irs.gov/pub/irs-drop/rr-15-13.pdf>

What about Rhode Island’s next-door neighbors?

Connecticut is following the federal deadline of April 18, 2016, for Connecticut tax purposes.

The Massachusetts Department of Revenue issued a Notice stating that the Massachusetts deadline is Tuesday, April 19, 2016:  
<http://1.usa.gov/1RheYNc>



### Editor’s Note

This filing season, many tax preparers will first encounter the sweeping changes that have occurred in the Rhode Island corporate tax structure.

The changes were enacted in 2014, but took effect for tax years beginning on or after January 1, 2015, so they will impact returns prepared this season, for tax year 2015.

But that’s not all. As 2016 begins, tax professionals face an entirely separate set of tax-law changes -- those which affect businesses and individuals for tax years beginning on or after January 1, 2016.

It’s a lot to keep track of. As a result, this special edition of *Rhode Island Tax News* focuses chiefly on what’s new for this filing season.

A separate issue of *Rhode Island Tax News* is scheduled to be posted soon and will include coverage of what’s new for tax year 2016, as well as the newsletter’s regular features -- including “Practitioners’ Corner” and “Legal Corner.”

### The April 18, 2016, filing deadline

This filing season, the deadline is April 18, 2016, for filings and payments. The April 18 deadline applies to the following for Rhode Island tax purposes:

- Resident and nonresident personal income tax returns.
- Calendar-year limited liability companies (LLCs) that are taxed as pass-through entities and that file their return on Form RI-1065.
- Calendar-year limited partnerships, limited liability partnerships, general partnerships, and single-member LLCs that file their return on Form RI-1065.
- Fiduciary returns, using a calendar year, on Form RI-1041.
- Calendar-year composite and pass-through filings.
- Property-tax relief claims on Form RI-1040H.
- Residential lead abatement credit claims on Form RI-6238.
- First quarterly estimated payment for 2016 of Rhode Island personal income tax.

### IMPACT OF NEW FEDERAL LAW

A recently enacted federal law changes some federal filing deadlines for tax years beginning after December 31,

2015. For example, the original federal due date for a calendar-year C corporation is now March 15, but will be April 15 starting in filing sea-

son 2017. Rhode Island thus far is sticking with March 15 as the original due date for a calendar-year C corporation in the 2017 filing season.



## FILING SEASON: NEW RHODE ISLAND TAX CREDITS

Three new Rhode Island tax credits that were enacted last year are allowed against the personal income tax:

- the “Stay Invested in RI Wavemaker Fellowship”;
- the “Rebuild Rhode Island” credit; and
- the “Rhode Island Qualified Jobs Incentive Program” credit.

The credits were part of a package of incentives that were proposed by Governor Gina M. Raimondo and approved by the General Assembly in June 2015.

The credits and other incentives are intended to help expand existing jobs, stimulate the creation of new jobs, attract new business and industry to the state, stimulate growth in real estate developments, and aid businesses that are prepared to invest in and foster job creation in the state.

Tax credits under the “Stay Invested in RI Wavemaker Fellowship” program are intended to serve as an incentive to keep educated individuals in the state. The credits will go to qualifying applicants to help them pay their higher education loans. The credits are for application against the Rhode Island personal income tax. The credit amount cannot exceed the applicant’s education loan expenses during a certain period.



Photo by Katie O'Hanlon

**Signing:** The budget bill that was signed in June 2015 by Governor Gina M. Raimondo (seated) included a package of tax credits and incentives to spur business growth and job creation. Also at the signing were (from left) Rep. Scott A. Slater, House Speaker Nicholas A. Mattiello, Sen. Walter S. Felag, Jr., Senate Majority Leader Dominick J. Ruggiero, Senate President M. Teresa Paiva Weed, Rep. Marvin L. Abney, and Senate Finance Committee Chairman Daniel Da Ponte.

The “Rebuild Rhode Island” program offers tax credits for certain commercial developments that have a financing gap. The credit may be used against the corporate income tax or certain other taxes, including the personal income tax by owners of pass-through entities.

Under the “Rhode Island Qualified Jobs Incentive Act of 2015”, a qualifying business may receive a tax credit whose base amount is up to \$2,500 a year for each new full-time job. The credit can rise to \$7,500 a year if the business meets certain criteria. The credit may be used

against the corporate income tax or certain other taxes, including the personal income tax by owners or shareholders of pass-through entities.

*NOTE: By statute, the credits are allowed for tax year 2015. They are listed on certain 2015 tax forms. As a practical matter, the credit programs are so new, few if any applicants will have been able to meet all requirements in time for claiming the credits on their 2015 returns. Still, tax preparers will want to be familiar with the programs for the 2016 tax year. To learn more about these and other credits, and to keep up with developments:*

*<http://bit.ly/1IGFoks>*

### E-file reminder

The Rhode Island Division of Taxation this filing season will accept the following returns under its electronic filing program (e-file):

- ♦ Form RI-1040
- ♦ Form RI-1040NR
- ♦ Form RI-1120C
- ♦ Form RI-1120S
- ♦ Form RI-1065



## FILING SEASON: EARNED INCOME CREDIT

Under federal and Rhode Island law, a special tax credit is available for the working poor. It is called the earned income credit, or EIC. (It is sometimes referred to as the earned income tax credit, or EITC.)

Eligible taxpayers may claim a federal earned income credit and a Rhode Island earned income credit.

For tax year 2014, the Rhode Island credit was computed based on a complex formula. Part of that formula took into account someone's Rhode Island tax liability (if any). And the credit was not fully "refundable." In other words, the credit could reduce the amount of someone's Rhode Island tax liability, perhaps to zero, but only a limited amount of the "leftover" credit was available to the claimant.

For tax year 2015, the computation of the Rhode Island credit is more straightforward – and the credit is fully refundable.

The impact, in dollars and cents, will depend on the claimant's circumstances. However, for tax year 2015 – in other words, for returns filed during this filing season – many claimants will see an increase in the amount of their credit.

Rhode Island earned income credit (EIC) comparison – Example 1		
	Tax year 2014	Tax year 2015
Rhode Island tax	\$0	\$0
Federal EIC	\$1,000	\$1,000
Rhode Island % (% of federal EIC)	25%	10%
Rhode Island EIC	\$250	\$100
Smaller amount <small>(Smaller of Rhode Island tax or Rhode Island EIC)</small>	\$0	N/A
Difference	\$250	N/A
Refundable %	15%	N/A
Refundable EIC	\$37.50	N/A
Total EIC	\$37.50	\$100

Rhode Island earned income credit (EIC) comparison – Example 2		
	Tax year 2014	Tax year 2015
Rhode Island tax	\$700	\$700
Federal EIC	\$5,000	\$5,000
Rhode Island % (% of federal EIC)	25%	10%
Rhode Island EIC	\$1,250	\$500
Smaller amount <small>(smaller of Rhode Island tax or Rhode Island EIC)</small>	\$700	N/A
Difference	\$550	N/A
Refundable %	15%	N/A
Refundable EIC	\$82.50	N/A
Total EIC	\$782.50	\$500

Note: In this example, the Rhode Island EIC for tax year 2014 wipes out the claimant's Rhode Island tax of \$700, and provides an additional amount – the "refundable" amount – of \$82.50 for the claimant. Thus, the "total EIC" is \$782.50



## FILING SEASON: DRIVER'S LICENSE REQUIREMENT

Most states -- including Rhode Island -- will ask taxpayers to provide their driver's license information this filing season when preparing their returns by computer.

The states also will ask preparers to enter the driver's license information into their tax preparation software program where indicated -- to help authenticate the returns that are filed.

It is part of a broader anti-fraud effort launched collaboratively by the states, the Internal Revenue Service, tax software providers, and others.

"Tax refund fraud is serious business. Whenever a criminal successfully files a return that contains a fraudulent claim for a refund, it represents theft of taxpayer dollars. So Rhode Island and a number of other states are asking taxpayers and preparers to help out this season as we bolster our campaign to combat tax refund fraud," said Rhode Island Acting Tax Administrator Neena S. Savage.

"When a professional prepares a Rhode Island personal income tax return, we are asking the preparer to request the taxpayer to provide his or her driver's license number or state-issued iden-



**Security:** Internal Revenue Service John Koskinen (center) was joined by state tax officials and others at a Security Summit in Washington, D.C., in November to launch a campaign to combat tax refund fraud. The campaign includes a logo as part of the "Taxes. Security. Together." campaign.

Photo by Julianne Fisher-Breitball / Internal Revenue Service

tification number, if available.

We are also asking the preparer to enter that information where indicated on the preparer's tax preparation software screen," Savage said. "It is just one more tool that can be used by the states to authenticate a return,"

she said.

The information will be transmitted only in electronically filed returns; it will not appear on paper returns, Savage said. Furthermore, the return will not be rejected if a taxpayer does not provide a driver's license number, or if a preparer forgets to enter it into the system, she said. "Providing the information can only help process the return more quickly," she said.



### **Q: How will the driver's license requirement be handled in the case of a married couple filing a joint return?**

**A:** Enter the driver's license number of both spouses. If only one spouse has a driver's license, enter that number. If one or both spouses has a state-issued ID number, enter that number.

### **Q: What if my client is claiming a dependent?**

**A:** Do not enter the dependent's driver's license number or state-issued ID number on your client's return.

### **Q: What if the dependent files his or her own return?**

**A:** If the dependent files his

or her own return, the dependent's driver's license or state-issued ID number should be entered on that dependent's own return.

### **Q: What if a client doesn't have a driver's license?**

**A:** Ask for a state-issued ID number. If neither a driver's license number nor state-issued ID number is available, proceed with preparing the return.

### **Q: What if the client has a license from another state?**

**A:** If the taxpayer has a driver's license issued in another state, enter that number on the client's return.



## FILING SEASON: PROPERTY-TAX RELIEF CREDIT HIKE

The maximum credit available for qualifying taxpayers under the statewide property-tax relief program has increased by 4.9 percent.

Thus, for filing season 2016 (covering tax year 2015 returns), the maximum credit claimed on Form RI-1040H is \$320, up from \$305 a year ago, an increase of \$15.

The maximum annual credit was established at \$55 per household in 1977, and was increased by the General Assembly several times until it reached \$300 starting in 2006.

Under that legislative change, the credit can increase based on net terminal income generated by State-authorized video lottery games.

Although such increases had been possible since July 2007, it turns out that tax year 2014 was the first time that an increase could occur based on the limits of the formula. And, based on the formula, the maximum credit has increased again, for tax year 2015 – and will apply for the 2016 filing season.

Keep in mind that the deadline for filing claims on Form RI-1040H this season is April 18, 2016.

Although the maximum credit amount has increased for the coming filing season, eligibility rules remain the same.

The program was established only for those 65 and older or



**Speaking of Taxes:** *Leo Lebeuf (at lectern above), chief revenue agent in the Rhode Island Division of Taxation’s Personal Income Tax section, discussed the statewide property-tax relief credit and other issues at the Division of Taxation’s seminar for tax preparers in Warwick in November.*

disabled. (“Disabled” means those persons who are receiving a Social Security disability benefit or Supplemental Security Income (SSI) payment.)

The program was broadened by a 1988 law to include disabled persons (elderly or not). In 1997, the program was expanded to non-disabled people younger than 65. However, under legislation enacted in 2013, effective for 2014 and later tax years, the program returned to its roots, with the credit solely for those 65 and older or disabled. The annual household income limit also remains at \$30,000.

Statewide property-tax relief	
Effective date	Credit maximum
July 1977	\$ 55.00
July 1978	\$150.00
July 1979	\$175.00
July 1980	\$200.00
July 1997	\$250.00
July 2006	\$300.00
January 2014	\$305.00
January 2015	\$320.00

Legislation enacted in 2006 allowed the credit to increase based on net terminal income generated by State-authorized video lottery games. Tax year 2014 was the first time that the credit increased due to that statutory formula. The credit increased again for tax year 2015 due to the formula.



## FILING SEASON: CORPORATE TAX RATE REDUCTION

Many corporations that do business in Rhode Island will see some tax relief when they complete their tax returns this filing season.

The corporate income tax rate is now 7 percent, down from 9 percent. That drop of two percentage points is the result of legislation enacted in 2014. The rate reduction took effect for tax years beginning on or after January 1, 2015. Therefore, many corporations will first see the rate reduction on the returns they fill out this season, for tax year 2015.

“This is a 22.22 percent reduction in the rate, which is good news for business,” said Rhode Island Acting Tax Administrator Neena S. Savage.

The rate reduction gave Rhode Island the distinction of having the lowest corporate income tax rate in New England for tax year 2015. Furthermore, Rhode Island’s neighboring states both have capital stock taxes, according to a Tax Foundation report for 2015. Rhode Island repealed its capital stock tax (also known as a balance sheet tax or franchise tax) for tax

years beginning on or after January 1, 2015.

Under former law, corporations paid either the Rhode Island corporate income tax or the Rhode Island franchise tax, whichever was higher. But when corporations or their preparers sit down to fill out returns for 2015, they will find that the franchise tax has been repealed.

*Although the franchise tax has been repealed, subchapter S corporations continue to be subject to the annual corporate minimum tax under Rhode Island General Laws § 44-11-2(e).*

State corporate income tax rates in New England	
State	Tax rate
Connecticut	9.00%
Maine	8.93%
New Hampshire	8.50%
Vermont	8.50%
Massachusetts	8.00%
Rhode Island	7.00%

Rhode Island has a single rate, which is 7.00%. For states with range of rates, table lists top marginal rate. Connecticut rate includes surcharge. Some states have different tax treatment for financial institutions, utilities, or certain other categories of corporations. Annual corporate minimum tax varies by state. Source: Tax Foundation

## NEW EXTENDED DUE DATE AFFECTS ALL C CORPS

Businesses that are treated as C corporations for federal income tax purposes will get seven months when filing on extension, instead of six months under the old system.

The original due date remains the same: the return is due on or before the 15th day of the third month following the close of the year. Thus, for a calendar-year C corporation’s 2015 return, the original due date is March 15, 2016.

### October deadline

But the extended due date for a calendar-year C corporation will be seven months later, on October 17, 2016.

(The extended due date under the new system would normally be October 15, 2016, but that falls on a Satur-

day this year, so the deadline moves to the next business day, which is Monday, October 17, 2016.)

“Whether you are part of a combined group, or you are a stand-alone C corporation,

the rule is the same: The extended due date will be seven months after the original due date for any taxpayer filing Form RI-1120C -- whether you have a calendar or a fiscal year,” said Acting Tax Administrator Neena S. Savage.

Business tax filing deadlines at a glance (calendar-year filers)			
Entity	Form	Original due date	Extended due date
S corporation	RI-1120S	March 15, 2016	September 15, 2016
C corporation	RI-1120C	March 15, 2016	October 17, 2016
LLC	RI-1065	April 18, 2016	October 17, 2016
Single-member LLC	RI-1065	April 18, 2016	October 17, 2016
Partnership	RI-1065	April 18, 2016	October 17, 2016

Note: Dates shown are for 2015 tax year returns filed by entities that use calendar year.



## FILING SEASON: NEW APPORTIONMENT FORMULA

Multi-state corporations must determine how much of their net income is attributable to Rhode Island based on apportionment formulas.

Formerly, most multistate corporations made the determination by using a three-factor apportionment formula that took into account sales, payroll, and property.

However, for tax years beginning on or after January 1, 2015, the apportionment formula that multi-state corporations must use to measure the share of business conducted in Rhode Island consists of only one factor: sales (also known as total receipts or gross receipts).

This is widely known as single-sales-factor apportionment. Many corporations will encounter it for the first time now, during filing season, for their 2015 returns. Single-sales-factor apportionment applies to all entities treated as C corporations for federal income tax purposes, including stand-alone C corporations and those that are part of a

combined group under mandatory unitary combined reporting.

There is also a change involving the sourcing method for gross receipts from transactions other than sales of tangible personal property. In general, under the old rules, C corporations used the cost-of-performance method; such sales were attributed to Rhode Island if the income-producing activity which gave rise to the receipts was performed wholly within Rhode Island.

However, for tax years beginning on or after January 1, 2015, C corporations must use market-based sourcing instead of cost-of-performance sourcing. In general, market-based sourcing treats receipts from the sale of services and intangible property as sourced to a state to the extent that the corporation's market for the sales is in the state. (In the case of sales of services, the sale is sourced to the state where the recipient of the service receives the benefit of the service.)



**Testimony:** William A. Farrell (in foreground above), legal counsel and administrator for the Rhode Island Bankers Association, testified at a Division of Taxation public hearing in December 2015 regarding regulations involving changes to Rhode Island's corporate tax system.

### Pass-through entities

Businesses treated as pass-through entities for federal income tax purposes will continue to use three-factor apportionment and cost-of-performance sourcing.

In summary, which apportionment formula and sourcing method to use depends upon how the business is treated for federal income tax purposes. (Please see table below.)

### More information

The Division of Taxation has posted regulations that provide more information about apportionment, nexus, and combined reporting. See the agency's website for more information:

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

### Rhode Island apportionment (for tax years beginning on or after 01/01/2015)

<i>Apportionment formula:</i>	<i>Applies to:</i>
Single-sales-factor apportionment	C corporations
Three-factor apportionment	Taxpayers other than C corporations
<i>Sourcing method:</i>	<i>Applies to:</i>
Market-based sourcing	C corporations
Cost-of-performance sourcing	Taxpayers other than C corporations
Note: "C corporations" means entities treated as C corporations for federal income tax purposes.	





## FILING SEASON: UNITARY COMBINED REPORTING

Combined reporting took effect for tax years beginning on or after January 1, 2015.

Under prior law, in general, a C corporation filed its return as a single entity – a separate entity – taking into account only its own income, even if the C corporation was part of a broader group of corporations, under common ownership, that were together engaged in a common business enterprise – a “unitary business.”

However, for tax years beginning on or after January 1, 2015, an entity treated as a C corporation for federal income tax purposes must report on its Rhode Island return not only its own income, but also the combined income of the other corporations, or affiliates, that are part of a combined group under common ownership and part of a unitary business. In other words, a C corporation must treat all of its affiliates as if they were a single company, and combine all of their taxable income in a single pool. Single-sales-factor apportionment is used to apportion the amount of the combined income to Rhode Island for tax purposes. The formula is applied at the group level. Combined reporting is optional in some states. But in Rhode Island, combined reporting is mandatory. (That is why it is sometimes referred to as mandatory unitary combined reporting.)



*Talking Taxes:* Marlen Bautista, chief revenue agent in the Rhode Island Division of Taxation's Corporate Tax section, talked about combined reporting and related topics during the agency's "Seminar for Tax Preparers" in December at the Community College of Rhode Island's Newport County campus.

During this filing season, many C corporations – and their tax advisers – will encounter combined reporting for the first time, as they prepare returns for tax year 2015.

The Division of Taxation has updated its forms and instructions to reflect the changes involving apportionment and combined reporting. But for many C corporations and their

advisers, most of the work involving complying with the new systems will be done in advance, before actually sitting down to file the return. (For combined reporting, for example, tax advisers must determine, among other things, which entities are part of a combined group, and whether the group is engaged in a common business enterprise – a unitary business.)

### More information

New regulations from the Division of Taxation provide more information about combined reporting (and related issues involving apportionment and nexus). The regulations provide a kind of roadmap to help C corporations and their advisers work their way through the new corporate tax systems and help them in complying with the law. The regulations are on the agency's website:

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



## FILING SEASON: W-2 VERIFICATION FIELD

The Internal Revenue Service during this filing season will be testing the use of a verification code on certain Form W-2 wage statements.

In general, it will work like this: Some payroll service providers have agreed to create a new “verification code” field on the Form W-2 and include in that field a 16-digit alphanumeric code on Copy B (the federal copy) and Copy C (the employee’s copy) of the Form W-2 for a limited number of taxpayers.

The point is to try to verify the Form W-2 information that is submitted by taxpayers on e-filed individual tax returns. The code will be displayed in four groups of four alphanumeric characters, separated by hyphens.

The IRS says that omitted and incorrect W-2 verification codes will not delay the processing of a tax return. The IRS says it will analyze information from the pilot program to see if it is useful in evaluating the integrity of W-2 information.

The IRS also says that the code will not be included in Form W-2 information that is submitted by payroll service providers to the IRS or to any state or local departments of revenue.

### State impact

The IRS says that the pilot program involving Form W-2 verification codes will not

affect state income tax returns, local income tax returns, or paper federal returns.

The W-2 verification code is part of a collaboration by the Internal Revenue Service, the states, tax software providers, and others to step up efforts to fight tax fraud during the coming filing season. *(The campaign includes its own logo, shown at right.)*

Many of the anti-fraud steps cannot be disclosed for security reasons.

However, at least two steps have emerged publicly: the W-2 verification program (summarized on this page), and the driver’s license requirement (summarized on page 5 of this newsletter).



Both have to do with authenticating returns – or the information contained in returns – to help ensure that the returns are not fraudulent. For more information on the W-2 verification program:

<http://1.usa.gov/1MNG251>

<http://1.usa.gov/1OVmXA4>



### Contacting Collections

All collections Notices that are sent out by the Division of Taxation will now include the Collections section main number, which is (401) 574-8941, and will also include a generic Collections section email:

[tax.collections@tax.ri.gov](mailto:tax.collections@tax.ri.gov)

Use of the main phone line and of the main email address will help ensure that inquiries from taxpayers and from tax practitioners are handled in the most efficient manner possible.



## FILING SEASON: SECTION 179 DEDUCTION

Some Rhode Island residents and Rhode Island businesses will benefit from recently enacted federal tax changes.

Following are a few examples:

### Section 179

When a business buys certain types of assets, the business generally recovers the cost by claiming a series of deductions over a time, through a process known as depreciation. But in certain circumstances, a business can deduct the cost all at once, in the same year, as a current-year expense, based on the provisions of Internal Revenue Code § 179 (known as “Section 179”).

At one time, Rhode Island followed federal law when it came to Section 179 expensing. But Rhode Island decoupled from the federal law in 2003, and froze the deduction, when federal law significantly expanded the deduction. As a result, the Section 179 deduction for Rhode Island tax purposes was sharply limited for a number of years.

However, under legislation approved by the Rhode Island General Assembly and signed into law by then-Governor Lincoln Chafee in 2013, Rhode Island recoupled with the federal Section 179 rules for assets placed in service on or after January 1, 2014.

Thus, a taxpayer can generally follow federal law when electing to treat the cost of any Section 179 property as a cur-

rent-year expense. In general, the annual federal expensing limitation was \$500,000 for tax years before 2015, but the cap dropped to \$25,000 for taxable years beginning after 2014.

### Permanent extension

But the new federal law extends the old \$500,000 annual limit permanently -- for tax years beginning after December 31, 2014, and that limit applies for both federal and Rhode Island tax purposes. (The phase-out limit, which was \$200,000, is now \$2 million for tax years beginning after December 31, 2014, for federal and Rhode Island tax purposes.)

Other extensions and changes that were adopted at the federal level will also apply at the Rhode Island level, including expensing computer software and certain qualified real property; air-conditioning and heating units placed in service in tax years beginning after 2015; and indexing the \$500,000 and \$2 million limits for inflation beginning in 2016.

“This will benefit many Rhode Island businesses, especially small businesses,” said Rhode Island Acting Tax Administrator Neena S. Savage. “Businesses should consult their tax advisers for more information,” she said.

### Schoolteachers

The federal deduction of up to \$250 for certain expenses of



**Seminar:** Acting Tax Administrator Neena S. Savage (above) discussed tax credits that can be claimed this filing season, and other topics, at a seminar for tax preparers held at the Community College of Rhode Island's Newport County campus in December.

elementary and secondary schoolteachers is permanently extended. If someone qualifies for the deduction at the federal level, it will reduce that person's federal adjusted gross income – and will automatically reduce the amount of income taxed by Rhode Island. Also, starting in 2016, the \$250 cap will be indexed to inflation and will include professional development expenses.

### Tuition and Fees

The federal deduction for qualified tuition and related expenses is extended through 2016. If someone qualifies for the deduction at the federal level, it will reduce that person's federal adjusted gross income – and will automatically reduce the amount of income taxed by Rhode Island.



# FILING SEASON: SALES TAX RECONCILIATION

Legislation enacted in June 2015 made changes to the application of Rhode Island’s 7 percent sales and use tax, 5 percent statewide hotel tax, and 1 percent local hotel tax to short-term residential rentals – including vacation homes and beach cottages.

Property owners who hold sales tax permits and/or collected and remitted the taxes to the Division of Taxation during 2015 have an annual filing requirement – just as retailers do each year who also have Rhode Island sales tax permits.

The filing is called the annual reconciliation, on Form T-204R, “Sales and Use Tax Return -- Annual Reconciliation.” The form is due on or before February 1, 2016.

If you rented out a beach cottage, a vacation home, a room in your home, or you made other such rentals last year, and you collected and remitted Rhode Island sales tax, following are a few tips regarding the reconciliation form:

◆ Don’t start on page one. Go directly to page two and complete Schedules A and B.

◆ On Schedule A, line 1b (see excerpt at top right of this page), enter all sales related to residential dwellings/room rentals from July through December 2015.

◆ On Schedule B, line l (see excerpt at lower right of this page), deduct revenue from

State of Rhode Island and Providence Plantations  
**Form T-204R-Annual - 2015**  
 Sales and Use Tax Return - Annual Reconciliation

		JAN - JUNE	JULY - DEC			
<b>SCHEDULE A - SALES BY CATEGORY</b>	1 a Pet services.....	1a				
	<b>b Residential dwelling/room rentals.....</b>	1b				
	c Transportation services (taxi, limo, bus, ground)	1c				
	d Clothing.....	1d				
	e Prewritten computer software delivered electronically or by "load and leave".....	1e				
	f Over-the-counter (OTC) drugs and medicines.....	1f				
	g Other sales: All sales not listed on lines 1a through 1f	1g				
	h Gross sales. Add lines 1a through 1g.....	1h				
	2 USE: Cost of personal property per RIGL 44-18-20....	2				
	3 TOTAL. Add lines 1h and 2.....	3				

<b>SCHEDULE B - LEGAL DEDUCTIONS</b>	d Clothing and footwear for general use (\$250 or less)...	4d					
	e Sales of motor vehicles.....	4e					
	f Boats.....	4f					
	g Prescription drugs.....	4g					
	h Exempt Organizations	1. Federal and State.....	4h1				
		2. Other exempt organizations & non-profits RIGL 44-18-30(5).....	4h2				
	i Heating fuels, electricity and gases.....	4i					
	j Manufacturing (equipment and supplies).....	4j					
	k Airplanes and airplane parts.....	4k					
	<b>l Residential dwelling/room rentals (greater than 30 consecutive days or 1 calendar month).....</b>	4l					
	m Other (Deductions not separately listed above): Specify.....	4m					
	n Total Deductions. Add lines 4a through 4m.....	4n					
	5 Net Taxable Sales. Subtract line 4n from line 3. Carry to page 1, line A.....	5					

each rental that was for longer than 30 consecutive days, or for a calendar month or more.

◆ After you complete Schedules A and B, carry over your net taxable sales to page one and complete the rest of the

form.

February 1, 2016, is also the deadline to renew your sales tax permit by filing the “Retail Sales Permit Renewal Application” and paying the required \$10 annual fee. Questions? Call (401) 574-8955.

**Keep in mind . . .**  
 When preparing your annual reconciliation return, remember that it’s only for Rhode Island’s 7 percent sales tax. Do not include the 5 percent statewide hotel tax or the 1 percent local hotel tax.



## Rhode Island Department of Revenue Division of Taxation

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*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 rulings, 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](http://www.tax.ri.gov).

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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](mailto:Neil.Downing@tax.ri.gov)

### BACK ISSUES

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#### *How to contact us*

Taxpayers may contact the Division of Taxation online, by phone, by letter, or in person.  
(Hours of operation are typically 8:30 a.m. to 3:30 p.m. business days.)

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