

RHODE ISLAND TAX NEWS

A NEWSLETTER FOR TAXPAYERS AND PREPARERS

SPECIAL EDITION: FILING SEASON 2012

BIG CHANGES FOR TAX SEASON

Look for some major changes when you fill out the Rhode Island personal income tax form this season.

The state's personal income tax system was transformed by state law changes enacted in June 2010.

The changes took effect in January 2011. Odds are, then, that you'll get your first full look at the changes this season, as you make preparations for filing your Rhode Island return (the one that covers 2011).

The Form 1040

Last year at this time, there were two Rhode Island tax forms from which to choose: the "simplified" Form RI-1040S, and the more detailed Form RI-1040. This season, only the Form RI-1040 remains - but

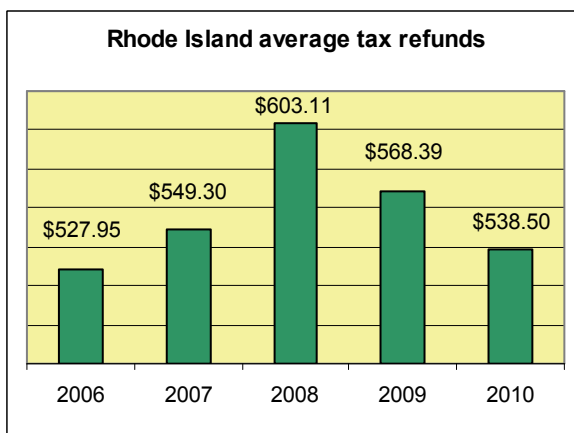
it's shorter than usual, and more straightforward.

Last season's Rhode Island resident Form 1040 booklet (from cover to cover) was 32 pages. Now it's 24 pages.

Even if you don't use the form, but rely instead on computer software or on someone else to help pre-

pare your return, you still should be aware of some key changes - such as a big drop in the top tax rate. Rhode Island's top marginal tax rate of 9.9 percent is no longer. The top rate has been reduced to 5.99 percent, effective for 2011 and later.

(Please turn to page 2)



Average refund by tax year, prior to application of interest and offset. Data for tax year 2010 is through November 4, 2011.

MAKE REFUND PROCESS GO SMOOTHLY

It's known as the "error register," a kind of computer file within the Rhode Island Division of Taxation, that lists all the personal income tax returns that cannot be processed in the usual way because they con-

tain errors or problems of some kind.

If your return winds up on the error register, it will be held in a kind of limbo until a staff member can manually review it. That can de-

lay the processing of your return - and your refund.

What to do? Avoid making the types of mistakes that force returns onto the error register in the first place.

(Please turn to page 6)



SPECIAL EDITION: FILING SEASON

Sweeping changes to the Rhode Island personal income tax system took effect last year -- the most significant since the tax was enacted in 1971.

Because many taxpayers will get their first look at the changes now, as they prepare returns in the 2012 filing season, *Rhode Island Tax News* offers this special edition, which includes highlights of the changes and some other filing-season details.

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BIG CHANGES FOR TAX SEASON (CONTINUED FROM PAGE 1)

Flat tax

The new system eliminates the optional flat-tax method of calculating the personal income tax. Enacted in 2006, the flat-tax method essentially let you use a single tax rate -- but sharply limited your use of deductions and credits.

The single tax rate was 8 percent for 2006; it gradually fell to 6 percent for 2010. (For 2011, it would have been 5.5 percent.) The new system also eliminates the alternative minimum tax.

Uniform brackets

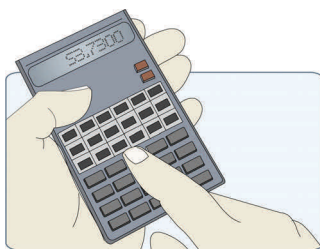
Last season, there were different sets of tax brackets. Which set you used generally depended on your "filing status" -- whether you filed your return as "single," for example, or as "married filing jointly."

New for this filing season is a single set of brackets for everybody, no matter one's filing status.

This should make for a cleaner, uniform system.

Standard deduction

In nearly all cases, you'll be able to claim a higher standard deduction amount than you could at this time last year. In some cases, it's a



sharply higher amount. As a result, more of your income will not be taxed.

For example, if you file your return as "single," your standard deduction amount will jump by about 32 percent, to \$7,500.

If you file as "married filing jointly," your standard deduction amount will rise by 57 percent, to \$15,000.

(There is no longer an "extra" standard deduction amount if you're 65 or older or blind.)

Itemizing

More than half of all filers claim the standard deduction. Some taxpayers in past years preferred instead to "itemize," a process of listing all your deductions separately, instead of claiming the standard deduction.

You can still itemize at the federal level. However, new for this season, you must claim the standard deduction; you may no longer itemize for Rhode Island personal income tax purposes.

Exemptions

The personal and dependency exemption amount will drop a bit. For 2010, it was \$3,650. For 2011, it falls to \$3,500.

Phase-out

The standard deduction amount, and the personal and dependency exemption amount, both phase out depending on your income.

The phase-out starts at

\$175,000 of modified federal adjusted gross income (AGI).

If modified federal AGI exceeds \$195,000, you get no standard deduction and no personal or dependency exemption.

carry-forward from a prior year for that credit.

However, some popular state tax credits are still allowed, including the credit for taxes paid to other states, and the property tax relief credit.

Higher standard deduction amounts

Filing status:	For tax year 2010:	For tax year 2011:
Single	\$5,700	\$7,500
Married filing jointly	\$9,550	\$15,000
Head of household	\$8,400	\$11,250
Married filing separately	\$4,750	\$7,500

Note: "Married filing jointly" includes those filing as "qualifying widow" or "qualifying widower." For 2011 and later years, there is no extra standard deduction amount for those age 65 or older, or

State credits

The number of state tax credits on the Rhode Island personal income tax return has been sharply reduced.

That will make for a cleaner, easier-to-use and more transparent tax system.

But it may catch some taxpayers by surprise this season, especially those who look for a certain credit and can't find it. And if a credit is no longer allowed, you aren't allowed a

(Please see the list of state credits on page 4.)

Federal credits

Fewer federal income tax credits are allowed on the Rhode Island return. That will make for a more straightforward tax system and an easier-to-use form.

Before preparing your return, check the list to see which credits are allowed and which are not. (Please see the list on page 4.)

§§

New Rhode Island Form 1040

RI-1040 RHODE ISLAND RESIDENT INDIVIDUAL INCOME TAX RETURN 2011

NAME AND ADDRESS	Your first name	Initial	Last name	Your social security number
	Spouse's first name	Initial	Last name	Spouse's social security number
	Present home address (number and street, including apartment number or rural route)			Daytime telephone number ()
	City, town or post office	State	Zip code	City or town of legal residence

If you want \$5.00 (\$10.00 if a joint return) to go to this fund, check here. (See instructions. This will not increase your tax or reduce your refund.) Yes

 If you wish the 1st \$2.00 (\$4.00 if a joint return) to be paid to a specific party, check the box and fill in the name of the political party. Otherwise, it will be paid to a nonpartisan general account.

FILING STATUS Check only one box:
 1 Single
2 Married filing jointly
3 Married filing separately
4 Head of household
5 Qualifying widow(er)

INCOME, TAX AND CREDITS	1. Federal AGI (Adjusted Gross Income) - Federal Form 1040, line 37; 1040A, line 21 or 1040EZ, line 4.....	1.
	2. Net modifications to Federal AGI (If no modifications, enter zero on this line.) from RI Schedule M, Line 3.....	2.
	3. Modified Federal AGI - combine lines 1 and 2 (add net increases or subtract net decreases).....	3.
	4. Deductions - RI standard deduction (left margin). If line 3 is over \$175,000 see Standard Deduction Worksheet on page 1.....	4.
	5. Subtract line 4 from line 3.....	5.
	6. Exemptions - Enter federal exemptions in box, multiply by \$3,500 and enter result on line 6. <input type="checkbox"/> X \$3,500 =	6.
	RI TAXABLE INCOME - subtract line 6 from line 5.....	7.
	RI income tax from Rhode Island Tax Table or Tax Computation Worksheet.....	8.
	9A. RI percentage of allowable Federal credit from page 2, RI Schedule I, line 22.....	9A.
	9B. RI credit for income taxes paid to other states from page 2, RI Schedule II, line 29.....	9B.
	9C. Other Rhode Island Credits from RI Schedule CR, line 4.....	9C.
	Total RI credits - add lines 9A, 9B and 9C.....	9D.
	10. Income tax after credits - subtract line 9D from line 8 (not less than zero).....	10.
	11. Checkoff contributions from page 2, RI Checkoff Schedule, line 37 (deductions reduce your refund or increase your balance due).....	11.
	12. LIQUOR TAXES tax due from page I-4, line 4 of the Individual Consumption Tax Worksheet.....	12.
	13. RI TAX AND CHECKOFF CONTRIBUTIONS - add lines 10, 11, and 12.....	13.

Rhode Island Standard Deduction Single \$7,500 Married filing jointly or Qualifying widow(er) \$15,000 Married filing separately \$7,500 Head of household \$11,250	
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Attach Forms W-2 and 1099 here.

New standard deduction amounts

Top tax rate lowered to 5.99%

A uniform tax table for all filers

New exemption amount

Illustration based on new Form RI-1040 for Tax Year 2011, implemented for 2012 tax-filing season.

FREE WALK-IN SERVICE STARTS JANUARY 18

The Rhode Island Division of Taxation's free walk-in tax-preparation service will open on Wednesday, January 18, 2012, at the agency's headquarters, at One Capitol Hill, Providence.

Staff will help walk-ins prepare and file their Rhode Island income tax returns, including the property-tax relief claim on Form RI-1040H. The service will be available from 8:30 a.m. to 3:30 p.m. business days.

If you plan to take advantage, make sure you bring all the materials you would normally need in order to file a complete and accurate return. For example, please be sure to bring along the following:

- ◆ Picture ID for you (and your spouse, if married);
- ◆ Social Security number or taxpayer identification number (for you, your spouse, and any dependents);
- ◆ Completed federal tax re-

turn

- ◆ Completed out-of-state returns (if applicable); and
- ◆ All documentation for any credits you are claiming. (For Form 1040H, bring records showing how much income your household received last year - including Social Security benefits you and others in your household collected. If you're a renter, bring a copy of your lease agreement or photocopies of



at least three rent receipts. If you own your home, bring a photocopy of the property tax bill.

The IRS will offer walk-in service during the filing season at its office at 380 Westminster St., Providence.

Rhode Island tax credits allowed for tax year 2011:
credit for income tax paid to other states
credit for tax withheld
historic structures tax credit
motion picture production tax credit
property tax relief credit
residential lead paint credit
Rhode Island earned income credit
credit for contributions to scholarship groups
Other Rhode Island credits are not allowed for 2011 and later years.
No carryovers from prior tax years are allowed.

Federal tax credit allowed on Rhode Island return for tax year 2011:
credit for child and dependent care expenses

E-FILING STARTS JANUARY 18

It's official: The Rhode Island Division of Taxation will begin accepting e-filed returns on January 18.

The agency expects an increase in e-filing in 2012 for two main reasons: new regulations, and a new system.

Strict new federal regulations take effect in January that require almost all tax preparers to e-file federal income tax returns. Formerly, those who prepared 100 or more federal returns had to e-file.

Effective January 1, 2012, those preparers who prepare 11 or more federal returns generally must e-file. This should result in more e-filing of Rhode Island returns, because Rhode Island is part of the joint federal/state e-file program that allows for the electronic filing of both federal and state income tax returns at the same time. As



a result, taxpayers and preparers typically e-file their federal and Rhode Island returns together.

Also, the IRS is expanding use of a newer e-file system, known as Modernized e-File, or MeF.

It's a web-based system that provides electronic filing and payment options for individuals and businesses. The IRS describes Modernized e-File as the next generation of electronic filing. It allows for the attaching of more documents, and e-filers receive acknowledgements sooner.

The Tax Division has [more information about e-filing](#) on its website.

The IRS has [more information about e-filing](#) on its website.

SALES TAX RECONCILIATION DUE JANUARY 31


If you had a Rhode Island sales tax permit in 2011, you must make a detailed sales tax accounting – a reconciliation -- by January 31, 2012. As part of the process, you list total sales, deductions, and other items for all of 2011 sales.

The reconciliation must be done annually. That's a big change, because under the old system, the reconciliation was done quarterly.

Keep in mind the deadline: The first annual reconciliation is due to the Tax Division on or before January 31, 2012.

There's a [special form on which to make the annual reconciliation](#); the Tax Division mailed it in early fall to holders of sales tax permits. Following are a few key points to keep in mind:

- ◆ You must complete and file the annual reconciliation return on paper, even if you pay sales tax electronically.
- ◆ If you are a quarterly sales-tax filer, the quarterly reconciliation is no longer required -- but you must file the annual reconciliation instead, by January 31, 2012. (That's the case even though you still file your quarterly sales tax return and make your quarterly sales tax payment.)
- ◆ If your annual reconciliation shows that you owe to the Tax Division a sales tax balance of less than \$1, you are not obligated to pay it; the agency will treat it as merely a rounding issue. (If you owe more than that, please see the instructions on the annual reconciliation form.)
- ◆ If your annual reconciliation shows an overpayment, no matter the amount, you may apply it against your tax balance for future periods. As an alternative, you may file a claim for a refund -- but please bear in mind that processing could take a number of weeks.
- ◆ If you have any questions, please call the Tax Division's Excise Tax section at (401) 574-8955 (select option 2).



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF REVENUE
DIVISION OF TAXATION
ONE CAPITOL HILL
PROVIDENCE, RI 02908

2011

SALES AND USE TAX RETURN - ANNUAL RECONCILIATION
SALES AND USE TAX RETURN TO BE FILED BY SELLERS OF TANGIBLE PERSONAL PROPERTY

DUE ON OR BEFORE JANUARY 31, 2012

*An excerpt of the reconciliation form for sales tax (above), which is now done annually.
The first such annual calculation and filing is due on or before January 31.*

NEW REPORTING RULES FOR SOME CORPORATIONS

If you file a Rhode Island corporate income tax return on Form RI-1120C, you'll notice a change for the current filing season.

The form now includes a special schedule, Schedule CRS, which has to do with combined reporting.

In general, combined reporting is a method of apportioning the income of corporations among the states in which they do business.

Under combined reporting, members of a group of commonly owned companies that are engaged in a unitary business must report their combined income.

For C corporations, Rhode Island General Laws require single entity reporting, not combined reporting. However, under legislation approved by the General Assembly and signed into law by Governor Lincoln D. Chafee on June 30, 2011,

each corporation that is part of a unitary business under common ownership must file a *pro forma* report for the combined group to include the combined net income of the combined group.

The requirement to file a *pro forma* combined report applies for two tax years – those beginning after December 31, 2010, but before January 1, 2013.

The combined report will

not be an actual return. Rather, it will be a compilation of data on Schedule CRS, which shall be filed along with the Rhode Island Form 1120C. Thus, the “combined report” will not take the place of a regular return on Rhode Island Form 1120C; it will supplement Rhode Island Form 1120C.

For more information, including filing deadlines and extensions, please review [Regulation CT 11-15](#).

MAKING REFUND PROCESS SMOOTH (CONTINUED FROM PAGE 1)

Following are a few of the most common mistakes:

Modifications

Preparation of your Rhode Island personal income tax return begins with a figure from your federal return: federal adjusted gross income, or federal AGI. But because of the way the tax laws work, you may have to make certain adjustments to that figure on your Rhode Island return.

The adjustments are called “modifications.” They can increase or decrease your income for Rhode Island tax purposes. And it is in modifications that taxpayers often trip up.

Depreciation

For example, tax law generally lets you claim a deduction for depreciation, to help you offset the cost of acquiring certain assets for business use.

Because federal law and Rhode Island law differ in their treatment of the deduction, you may have to make a modification on your state return. There are specific lines for specific depreciation deductions, then there’s a place to enter the total. But some taxpayers overlook the specific lines and simply enter the total.

That’s enough to kick the return onto the error register. So when you’re doing the return, don’t skip the specific lines to which the modification applies. Look

for the words “Section 179 depreciation” and “bonus depreciation” and fill those lines in if applicable – then fill in your totals. *This principle applies even if you’re filing a supplemental statement with your return.*

S corps

Suppose you’ve paid to Rhode Island the \$500 minimum tax - sometimes called a fee - associated with your subchapter S corporation. You’ve deducted that payment on your personal federal income tax return. So now it’s time to add it back as a modification on your Rhode Island return, right? Wrong. Adding it back is enough to kick your return onto the error register.

Some taxpayers persist anyway. They look for a specific line on which to enter the amount, but can’t find one, so they simply place it on a “total” line. Some add a supplemental statement. But you shouldn’t include the \$500 annual corporate minimum tax (or your share of it) as an add-back on your personal Rhode Island income tax return. There’s no such requirement in state law.

Estimated payments

The Tax Division checks to see if the amount of estimated tax you list on your return matches the amount of estimated tax you actually paid. If the two figures differ, your return gets kicked to error register.

Rhode Island uniform tax table for 2011				
Over	But not over	Pay	+ percent on excess	of the amount over:
\$ 0	\$ 55,000	\$ ----	3.75%	\$ 0
55,000	125,000	2,063	4.75%	55,000
125,000	----	5,388	5.99%	125,000

Schedule W

Schedule W isn’t new; it was introduced in the last tax-filing season, for returns covering tax year 2010. But, being new, it resulted in a lot of problems.

On Schedule W, you list a number of things, including the employer’s name from your Form W-2, the payer’s name from your Form 1099, and the amount of Rhode Island income tax withheld. (The Tax Division uses such information as part of its various information-matching processes.) Last filing season, about 17,000 taxpayers who should have completed Schedule W and filed it with their returns did not do so. As a result, those returns bounced automatically to the error register, resulting in delays until those taxpayers could be contacted.

Other items

Following are some other

ways to avoid the error register:

- ◆ If you’re required to attach a particular form or schedule with your return, make sure you’ve done so. So if you’re claiming a credit against your Rhode Island tax for tax you’ve paid to another state, for instance, attach a copy of the other state’s return. *(If you e-file, the software will probably do this for you.)*
- ◆ Make sure you list the correct Social Security number on your return for you (and your spouse, if you’re married). *Even if the number listed on your Form W-2 is incorrect, put the right one on your return.*
- ◆ If you’re filing a paper return, don’t forget to attach all Forms W-2 and Forms 1099. Also remember to fill out and attach your Schedule W. And don’t forget to sign your return.

A SHIFT IN TAX DEADLINES IN 2012

Because of the way the calendar falls this year, taxpayers will get a bit of a break on some tax-filing deadlines.

Estimated tax

The fourth quarterly estimated tax payment is normally due January 15 - but



Mark your calendar

- ◆ January 17, 2012
- ◆ April 17, 2012

that falls on a Sunday this year. Ordinarily, then, the deadline would fall on the next business day -- but Monday, January 16, is a holiday (the birthday of Martin Luther King Jr.). Thus, the payment -- for Rhode Island and federal personal income tax -- will be due Tuesday, January 17, 2012.

April deadlines

Personal income tax returns are normally due April 15, but that date falls on a Sunday this year. The following day is Emancipation Day in Washington, D.C., which the IRS will observe. As a result, the federal filing deadline will be Tuesday, April 17, and Rhode Island



Don't fret!

Taxpayers get a small break on two deadlines in 2012.

will follow suit. April 17 will also be the deadline for payments of first-quarter estimated tax, as well as for:

- ◆ many partnership information returns on Form RI-1065;
- ◆ LLCs not taxed as corpo-

rations;

- ◆ fiduciary income tax returns on Form RI-1041;
- ◆ property tax relief claims on Form RI-1040H; and
- ◆ lead-abatement credit claims on Form RI-6238.

NEWSLETTER POLICY

Rhode Island Tax News is a newsletter from the Rhode Island Department of Revenue's Division of Taxation. It is typically published each quarter. Its purpose is to provide taxpayers and tax professionals with general information regarding Rhode Island tax laws, regulations and procedures. It is neither designed nor intended to address complex issues in detail. Nothing contained in this newsletter in any way alters or otherwise changes any provisions of the Rhode Island General Laws, regulations of the Tax Division, or formal rulings. The Tax Division is at One Capitol Hill, Providence, RI 02908. Its website is www.tax.ri.gov.

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COMMENTS AND SUGGESTIONS

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E-FILING URGED AS BULK MAILING ENDS

The Rhode Island Division of Taxation in December mailed nearly 15,000 postcards to taxpayers, letting them know about the various ways to obtain tax forms, instructions, and booklets. (*Please see box below for a list of options.*)

The postcards also advised taxpayers that the Tax Division has elected not to make an automatic bulk mailing of tax booklets to taxpayers this season.

The Tax Division's decision came about a year after the Internal Revenue Service eliminated its bulk mailing of tax booklets. Many states have also put an end to their mailings.

The electronic filing of tax returns, a process known as e-file, has become so popular among taxpayers and tax preparers, few people need paper forms and instructions. About 75 percent of



Rhode Island personal income tax returns are now e-filed, up from about 53 percent three years ago.

E-filing provides prompt and accurate processing of returns, faster issuing of refunds, and the option to have a Rhode Island refund deposited directly into the taxpayer's bank or credit union account.

E-filing also reduces state printing and postage costs, saving taxpayers money.

**"WE URGE ALL
TAXPAYERS -- AND
THEIR PREPARERS -
- TO E-FILE."**

- DAVID M. SULLIVAN,
RHODE ISLAND TAX
ADMINISTRATOR

ORDERING FORMS

There are several ways to obtain copies of tax forms and instructions. For example::

- ◆ Download a copy from the [Tax Division's website](#)
- ◆ Call the forms request line at (401) 574-8970
- ◆ E-mail your request for a copy: TaxForms@tax.ri.gov
- ◆ Visit the Tax Division's first-floor lobby at One Capitol Hill, Providence.

CHANGES ON FIDUCIARY FORM FOR TAX YEAR 2011

A number of the same changes that apply to the personal income tax for 2011 also apply to fiduciary returns (for many trusts and estates). The changes are reflected on the [Form RI-1041, "Rhode Island Fiduciary Income Tax Return," for 2011](#).

Among the highlights: the top marginal tax rate has fallen sharply. It was reduced to 5.99 percent

from 9.9 percent. In addition, there are fewer tax brackets, and those that remain have widened.

The tax rate schedule (excerpted at right), applies to non-grantor trusts and non-bankruptcy estates. It shows how the tax rates apply to various levels of income. Find more information on the [RI-1041 tax worksheet](#), and in the Form RI-1041 [instructions](#).

Rhode Island taxable income: Trusts and estates			
Over	But not over	pay + percent on excess	Of the amount over...
\$ 0	\$ 2,230	\$ 0 + 3.75%	\$ 0
2,230	7,022	\$ 84 + 4.75%	2,230
7,022	---	\$ 312 + 5.99%	7,022