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CLIENT ADVISORY:

SWEEPING CHANGES TO RHODE ISLAND'S CORPORATE INCOME TAX REGIME: IS YOUR ORGANIZATION PREPARED?

Significant modifications to Rhode Island's corporate income tax system were contained in the state's 2015 fiscal year budget approved by the General Assembly and signed into law by Governor Chafee in June of 2014. Described by the state's tax administrator as constituting some of "the most sweeping changes to the structure of Rhode Island's corporate income tax since 1947," and effective beginning January 1, 2015, orientation and acclimation should be made a priority in every business' queue.

Some of the most notable reconfigurations to Rhode Island's corporate income tax regime will be seen in combined reporting, single sales factor apportionment and the reduction or repeal of certain corporate tax rates and taxes. Combined reporting will be mandatory for all C-corporations subject to the business corporation tax under Rhode Island General Laws and which are under common ownership and engaged in a unitary business. This reporting will apply to businesses operating in Rhode Island regardless of whether the common business is conducted in additional jurisdictions. Special rules regarding the payment of estimated taxes will also apply. On the other hand, S-corporations, partnerships, disregarded entities and certain limited liability companies treated as "pass through" companies, will not typically be subject to combined reporting.

In essence, starting January 1, 2015, there will be two sets of rules for apportionment: one for C-corporations subject to the business corporation tax, and another for other corporate entities. Under the revised laws, single sales factor apportionment will be mandatory for all C-corporations subject to tax under R.I. Gen. Laws 44-11, regardless of whether such corporations are subject to combined reporting. Moreover, several of the special apportionment formulas used by many C-corporations in past tax years, including the "certified facility apportionment exclusion," retirement and pension plan apportionment, and manufacturers' apportionment, will no longer be available to such corporations in the coming year. The special apportionment provisions may, however, continue to be utilized by other entities.

Perhaps the most eye-catching changes to Rhode Island's tax laws is the reduction of the business corporation tax beginning this coming tax year. Starting January 1st, C-corporations subject to that tax will be taxed at a reduced rate of seven percent, whereas in the 2014 tax year, they were subject to a nine percent tax rate. Equally noteworthy, Rhode Island's franchise tax under R.I. Gen. Laws 44-12 will be repealed and ineffective beginning New Year's day.

While the Rhode Island Division of Taxation has indicated its intent to issue regulations and guiding instructions to corporate entities in order to facilitate the smooth transition into these drastic tax law changes, only limited guidance has been issued to date.

With the new tax year quickly approaching, it is imperative that corporate decision makers not sit idle and wait for the Division to provide further instruction. With this the season for annual budget approvals and key business decisions for the coming year, corporations must be proactive in educating themselves on the implications of these changes to ensure their businesses do not fall behind or run afoul of the law.

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