

DOR Rhode Island Department of Revenue
Division of Taxation

Via Electronic Mail

May 14, 2024

The Honorable Marvin L. Abney
Chair, House Committee on Finance
Rhode Island State House
Providence, RI 02903

RE: Letter Regarding House Bill 7120 –An Act Relating to Taxation – Personal Income Tax

Dear Chair Abney:

I am writing on behalf of the Rhode Island Department of Revenue, Division of Taxation (“Division”), to i) express concerns regarding issues with proposed House Bill 7120 as currently drafted; ii) explain the background and current statutory context in order to clarify the intended and unintended consequences of this bill; and iii) make recommendations and request your support in implementing those recommendations.

This letter is not intended as a position in support of, or opposition to, the bill, but only as recommendations on drafting to provide clarity in the bill and to aid tax administration and compliance.

As you know, the bill amends R.I. Gen. Laws § 44-30-12 to add a personal income tax modification reducing federal adjusted gross income for “payment of interest on student loans.” Specifically, the bill provides that “[t]here shall be subtracted from federal adjusted gross income an amount equal to the payments of interest for the satisfaction of outstanding student loans.”

Student loan interest is already deducted at the federal level (on Federal Schedule 1, Line 20) and the deduction is capped at \$2500. This bill, as drafted, would result in a double benefit for taxpayers taking the deduction at the federal level, as the same income for amounts up to and including \$2500 will be deducted twice from federal adjusted gross income for Rhode Island tax treatment.

Further, another consequence of this bill, to the extent such a taxpayer is also a recipient of an award under the Stay Invested in RI Wavemaker Fellowships (R.I. Gen. Laws § 42-64.26-1, *et seq.*), is that the taxpayer could receive a triple benefit for amounts up to \$2500 deducted at the federal level, again at the state level, and included in a Wavemaker award.

Additionally, the language in the bill provides no limitation for the deduction, no parameters or limitations for the type of qualifying loan, no indication or guidance regarding the tax years in which the interest deduction can be claimed (e.g. the modification is not limited to the interest paid

within a particular tax year), and allows the deduction for both Rhode Island residents and non-residents.

Finally, the bill would take effect upon passage. The Division is concerned that the effective date, as currently drafted, may cause confusion among some taxpayers, tax preparers, and tax software providers as the effective tax years are not referenced. Tax legislation which takes effect during the 2024 calendar year – particularly the first part of the calendar year – might lead taxpayers and others to conclude that the modification provided for in House Bill 7120 applies during the current filing season, for the 2023 tax year. That would lead to errors in filing and processing, which could, in turn, lead to underpayment penalties and interest, as well as the need for preparing and filing amended returns. To forestall any possible confusion, the Division would respectfully request that the bill's language involving the effective date be changed to specify the tax year(s) to which the proposed amendment would apply. The Division believes that such language would make it clear to taxpayers, tax preparers, and tax software providers that the proposed amendment would apply to tax years beginning on or after a specific date. Furthermore, setting the effective date at a future point would provide taxpayers, tax preparers, and tax software providers sufficient time to plan ahead.

The Division takes no position with respect to the remainder of the proposed legislation. Rather, the Division is concerned solely with the issues of tax policy, clarity, tax compliance, and tax administration. As such, the Division respectfully suggests that the issues described herein be clarified.

I look forward to working with you to address the issues raised in this letter and appreciate your consideration.

Very truly yours,



Neena S. Savage
Tax Administrator

cc: The Honorable Members of the House Committee on Finance (via:
HouseFinance@rilegislature.gov)
The Honorable Anthony J. DeSimone (rep-desimone@rilegislature.gov)
Nicole McCarty, Esquire, Chief Legal Counsel to the Speaker of the House
Lynne Urbani, Director of House Policy
Thomas A. Verdi, Director, Department of Revenue