



OFFICE OF MANAGEMENT & BUDGET

State Budget Office

One Capitol Hill
Providence, RI 02908-5890

Office: (401) 222-6300

State Fiscal Note for Bill Number:

2025-H 6009

Date of State Budget Office Approval: Monday, June 2, 2025

Date Requested: Wednesday, May 7, 2025

Date Due: Saturday, May 17, 2025

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2025	\$0	FY 2025	\$0
FY 2026	\$0	FY 2026	\$(16,930)
FY 2027	\$0	FY 2027	\$(33,972)

Explanation by State Budget Office:

This bill amends Rhode Island General Laws (R.I. Gen. Laws) § 44-30-2.6 titled "Rhode Island taxable income – Rate of tax" by adding a new section R.I. Gen. Laws § 44-30-2.6(n) that would allow the Investment Tax Credits (ITC) to be passed through to the personal income tax returns of eligible Sub-S corporation shareholders and limited liability company members meeting certain conditions.

Under current law, ITC cannot be claimed on the personal income tax returns. It may be taken only against the business corporation tax (R.I. Gen. Laws Chapter 44-11), the taxation of banks (R.I. Gen. Laws Chapter 44-14), and the taxation of insurance companies (R.I. Gen. Laws Chapter 44-17) for all eligible taxpayers.

Summary of Facts and Assumptions:

The effective date of the bill is upon passage. The provisions of the bill are applicable to tax year 2026. The Division of Taxation submitted a letter to the House Committee on Finance on May 6, 2025 for the hearing on the bill to note technical concerns.

It was formerly possible to claim the ITC against the personal income tax (PIT) imposed by R.I. Gen. Laws Chapter 44-30. However, this law was repealed effective for tax years beginning on or after January 1, 2011. Since then, the ITC may only be taken against the business corporation tax (R.I. Gen. Laws Chapter 44-11), the taxation of banks (R.I. Gen. Laws Chapter 44-14), and the taxation of insurance companies (R.I. Gen. Laws Chapter 44-17) for all eligible taxpayers.

The amount of ITC and the eligibility criteria to receive the tax credit vary based on the industry the business operates in and other rules specified in statute. For example, general manufacturers are provided with a credit of 4% of the cost or qualified amounts for leased assets of tangible personal property and buildings, as well as structural components of buildings provided that the assets have a useful life of at least four years. A 10% credit of the cost or qualified amounts for leased assets of buildings and structural components is also provided to high performance manufacturers meeting certain wage requirements. For non-manufacturers, a credit equal to 10% of the cost or qualified amounts for leased assets of tangible personal property (excluding motor vehicles and furniture),



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provided that the assets have a useful life of at least four years, is granted to firms that are classified in major groups 20 through 39 in SIC Codes.

In addition, four eligibility options are administered by the Department of Labor and Training (DLT), Labor Market Information (LMI) group for employers that may qualify for the 10% ITC. The proposed bill only touches upon one of these options, which states that, for manufacturing employers only, the average annual wage paid to the employer's full-time equivalent employees classified as production workers (as defined by DLT) should be greater than the average annual wage paid to all production workers in the state in the same three-digit North American Industry Classification System (NAICS) code. The proposed bill would extend the ITC usage to PIT filers that are eligible under this pathway.

According to Taxation testimony at the November 2011 Revenue Estimating Conference (REC), the average ITC used was \$15,420,978 for TY 2007 through 2010 with an average \$2,366,290 or 15.9% claimed under personal income tax. Taxation indicated that 3.4% of the ITC amounts used in TY 2023 was issued under the DLT's eligibility pathway described above. According to the November 2024 REC, the average total ITC used in TY 2021 through TY 2023 was \$6,400,000. The Office of Revenue Analysis (ORA) multiplied this figure by the two percentages described above to estimate a revenue loss of \$34,498 in TY 2023 if this bill goes into effect.

The growth rate for Rhode Island gross state product for total manufacturing, based on Moody's testimony at the May 2025 REC, is -1.85% for TY 2026-over-TY 2023 and 0.66% for TY 2027-over-TY 2026. Using these percentages yields estimated revenue losses of \$33,860 in TY 2026 ($\$34,498 * -0.0185$) and \$34,084 in TY 2027 ($\$33,860 * 0.0066$).

Employing the Office of Accounts and Control's accrual methodology yields budgetary revenue loss from the passage of this bill for FY 2026 of \$16,930 ($\$33,860 * 0.5$) and revenue loss of \$33,972 ($(\$33,860 * 0.5) + (\$34,084 * 0.5)$) for FY 2027.

Comments on Sources of Funds:

All personal income tax revenues are general revenues.

Summary of Fiscal Impact:

FY 2025: Not applicable due to the implementation date of January 1, 2026.

FY 2026: A revenue loss of \$16,930 is forecast.

FY 2027: A revenue loss of \$33,972 is forecast.

Budget Office Signature: _____

Fiscal Advisor Signature: _____

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Codega Jr.
Date: 2025.06.03 08:47:51 -04'00'