



# OFFICE OF MANAGEMENT & BUDGET

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## MEMORANDUM

**To:** The Honorable Marvin L. Abney, Chair, House Finance Committee  
The Honorable Louis P. Di Palma, Chair, Senate Finance Committee

**From:** Joseph Codega, Jr., Budget Officer 

**Date:** May 15, 2026

**Subject:** Amendments to FY 2027 Appropriations Act (26-H-7127)

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### Governor's Budget Amendment #14

The Governor requests a technical amendment to modify the Millionaire's Tax personal income tax policy proposal included in Article 5 - Relating to Taxes and Fees of the Governor's FY 2027 budget recommendation to prevent unintended consequences on small businesses organized as pass-through entities whose owners are not subject to millionaire-level income tax. The amendment has no revenue impact relative to the Governor's original proposal and was prepared in consultation with the Division of Taxation and the Executive Office of Commerce following feedback received during the legislative session.

The Governor's original proposal would impose an additional 3.0 percent tax on taxable income above \$1,000,000, increasing the tax rate applied to that income from 5.99 percent to 8.99 percent. Because Rhode Island's elective Pass-Through Entity Tax (PTET) is currently imposed at 5.99 percent, the original proposal also contemplated increasing the PTET rate to 8.99 percent. Rhode Island law currently allows a pass-through entity to elect to pay tax at the entity level at a rate of 5.99 percent.

The amendment restructures the proposal as a 3.0 percent surtax on taxable income above \$1,000,000. For individual taxpayers, the additional bracket and surtax structures are effectively equivalent. For pass-through entities, however, the surtax structure allows greater flexibility by preserving the existing 5.99 percent PTET election while making the additional 3.0 percent PTET surcharge elective.

A pass-through entity is a business whose income is generally not taxed at the entity level. Instead, income passes through to the owners, partners, members, or shareholders, who report their share of the income on their own tax returns. Common examples include partnerships, S corporations, and many LLCs.

Pass-through entity taxes were widely adopted by states in response to the federal cap on the state and local tax deduction, commonly known as the SALT cap. The Tax Cuts and Jobs Act limited the individual SALT deduction to \$10,000 beginning in tax year 2018; subsequent

federal legislation increased the cap to \$40,000 for tax year 2025, subject to income limitations. The SALT deduction allows federal personal income tax filers who itemize deductions to reduce federal taxable income by certain taxes paid to state and local governments, subject to applicable limits.

An elective PTET allows a pass-through entity to pay state income tax at the entity level. For federal tax purposes, the entity-level payment may reduce the income passed through to owners and is not treated as an individual SALT deduction subject to the cap. IRS guidance provides that qualifying entity-level income tax payments by partnerships and S corporations are deductible in computing the entity's income and are not taken into account in applying the SALT deduction limitation to individual partners or shareholders.

Rhode Island provides owners of electing pass-through entities with a state tax credit for their share of PTET paid by the entity. For tax years beginning on or after January 1, 2025, that credit equals 90 percent of the PTET paid on the owner's behalf. As a result, increasing the PTET rate is not dollar-for-dollar neutral for Rhode Island personal income tax purposes: each additional dollar of PTET paid generates only 90 cents of Rhode Island personal income tax credit, and the entity-level payment may also create timing or cash-flow concerns.

The amendment addresses this issue by separating the Millionaire's Tax, which applies to personal income above \$1,000,000, from the elective PTET mechanism, which applies only to pass-through entities that choose to pay state tax at the entity level. Personal income taxpayers with taxable income above \$1,000,000 remain subject to the additional 3.0 percent tax, preserving the policy and revenue intent of the Governor's proposal. At the same time, pass-through entities whose owners would not benefit from the higher entity-level rate may continue to elect the 5.99 percent PTET rate, avoiding unnecessary costs or cash-flow impacts. Entities whose owners would benefit from the higher entity-level payment may elect the additional 3.0 percent PTET surcharge.

This approach preserves the PTET's value as a SALT cap workaround for high-income owners while addressing concerns that the original structure could be perceived as, or operate as, a broad tax increase on small businesses simply because they are organized as pass-through entities.

The amendment has no revenue impact relative to the revenue estimate submitted with the Governor's original proposal. In theory, increasing the PTET rate from 5.99 percent to 8.99 percent could generate additional revenue because Rhode Island provides PTE owners with a credit equal to 90 percent of PTET paid on their behalf. As a result, each additional dollar of PTET paid would generate only a 90-cent credit against personal income tax liability, with the remaining 10 cents retained as net state revenue. Based on estimates consistent with the May 2026 Revenue Estimating Conference, this theoretical revenue impact is up to approximately \$3.2 million.

However, this potential revenue gain was not included in the original revenue estimate for the Governor's proposal. The original estimate was prepared conservatively due to uncertainty regarding taxpayer behavior. This revenue was also excluded from the original estimate as it was consistent with the Governor's policy intent that the Millionaire's Tax only apply to individual tax filers with taxable income in excess of \$1,000,000 and should not apply to small businesses owners with less than \$1,000,000 in taxable income.

Accordingly, while the amendment may reduce theoretical revenue that could have resulted from applying the higher PTET rate without an elective surcharge, it does not reduce revenue relative to the revenue projections underlying the Governor's recommended budget. The amendment therefore preserves the original revenue estimate while addressing the potential unintended consequences identified during the legislative session.

### **Summary of Proposed Changes**

This amendment intends to modify only sections of Article 5 which relate to the Millionaire's Tax proposal. Some sections may incidentally include language related to other tax and revenue initiatives, which remain unmodified and consistent with the Governor's original request.

The amendment includes the following:

- (i) strike all references to the tax bracket on personal income over one million dollars (\$1M) as previously proposed and in its place add a High-income Surtax at three percent (3%), effective for tax years beginning on or after January 1, 2027, which is effectively the same in scope and impact and allow for CPI-U inflationary adjustments for the High-income Surtax;
- (ii) allow for an additional pass-through entity tax election tax rate in RIGL § 44-11-2.3 (b)(2) at the current 5.99% rate plus the 3% High-income Surtax rate;
- (iii) clarify that for purposes of Chapter 30 of Title 44 of the Rhode Island General Laws, any reference to "highest Rhode Island withholding tax rate for individuals" incorporates the High-income Surtax into that rate for purposes of consistency with RIGL § 44-11-2.2(d);
- (iv) incorporate the High-income Surtax on taxable income of an estate or trust consistent with current tax treatment of imposing the current highest marginal rate (5.99%) on income of an estate or trust;

These above policies are proposed to be enacted in Article 5, Relating to Taxes and Fees, Sections 2 and 6 by:

- (i) Amending RIGL § 44-11-2.2(d)(1) to incorporate the provision that the highest marginal tax rate for purposes of this chapter shall be the sum of the highest marginal tax rate in RIGL § 44-30-2.6(c)(3)(A)(I)(1) and the high-income tax surtax in subparagraph RIGL § 44-30-2.6(c)(3)(A)(I)(2).
- (ii) Amending RIGL § 44-11-2.2(b)(2) to allow pass-through entities to elect to pay an additional state tax on income equal to or exceeding the amount in RIGL § 44-30-2.6(c)(3)(A)(I)(2) at the rate in RIGL § 44-30-2.6(c)(3)(A)(I)(2).
- (iii) Striking the prior amendments to RIGL § 44-30-2.6(c)(3)(A)(I)(2) and replacing it with the "High-income surtax" in the same section, RIGL § 44-30-2.6(c)(3)(A)(I)(2).
- (iv) Clarifying in a new subparagraph, RIGL § 44-30-2.6(c)(3)(A)(I)(3), that the "Highest Rhode Island withholding tax rate provided for individuals" is incorporated in

- Chapter 30 of Title 44 for purposes of clarity and consistency with RIGL § 44-11-2.2(d).
- (v) Clarifying in a new subparagraph, RIGL § 44-30-2.6(c)(3)(A)(I)(4), that for purposes of Title 44, that any references to personal income tax for individuals shall include the tax imposed in subparagraph RIGL § 44-30-2.6(c)(3)(A)(I)(1) and the high-income tax surtax in subparagraph RIGL § 44-30-2.6(c)(3)(A)(I)(2);
  - (vi) Clarifying in a new subparagraph RIGL § 44-30-2.6(c)(3)(A)(II)(2) that the taxable income of an estate or trust is subject to the High-income surtax for tax years beginning on or after January 1, 2027 on income over \$36,427.
  - (vii) Incorporating an inflation adjustment in RIGL § 44-30-2.6(c)(3)(E)(III)(2); for the High-income Surtax with a base year of 2026.

If you have any questions regarding this amendment, please feel free to call me or my staff at 222-6300.

cc: Sharon Reynolds Ferland, House Fiscal Advisor  
Stephen Whitney, Senate Fiscal Advisor  
Thomas Verdi, Acting Director of Administration  
Brian Daniels, Director, Office of Management and Budget

**26-H-7127: RELATING TO MAKING APPROPRIATIONS IN SUPPORT OF FY 2027**

**Article 5 - Relating to Taxes and Fees**

Page 96, Replace Lines 29-30 with the following:

“SECTION 2. Sections 44-11-2.2, 44-11-2.3, and 44-11-11 of the General Laws in Chapter 44-11 29 entitled “Business Corporation Tax” are hereby amended to read as follows:”

Page 96, After Line 30: Insert the following:

**44-11-2.2. Pass-through entities — Definitions — Withholding — Returns.**

(a) Definitions.

(1) “Administrative adjustment request” means an administrative adjustment request filed by a partnership under IRC section 6227.

(2) “Audited partnership” means a partnership or an entity taxed as a partnership federally subject to a partnership level audit resulting in a federal adjustment.

(3) “Direct partner” means a partner that holds an interest directly in a partnership or pass-through entity.

(4) “Federal adjustment” means a change to an item or amount determined under the Internal Revenue Code (IRC) that is used by a taxpayer to compute Rhode Island tax owed whether that change results from action by the IRS, including a partnership level audit, or the filing of an amended federal return, federal refund claim, or an administrative adjustment request by the taxpayer. A federal adjustment is positive to the extent that it increases state taxable income as determined under Rhode Island state laws and is negative to the extent that it decreases state taxable income as determined under Rhode Island state laws.

(5) “Final determination date” means if the federal adjustment arises from an IRS audit or other action by the IRS, the final determination date is the first day on which no federal adjustments arising from that audit or other action remain to be finally determined, whether by IRS decision with respect to which all rights of appeal have been waived or exhausted, by agreement, or, if appealed or contested, by a final decision with respect to which all rights of appeal have been waived or exhausted. For agreements required

to be signed by the IRS and the taxpayer, the final determination date is the date on which the last party signed the agreement.

(6) “Final federal adjustment” means a federal adjustment after the final determination date for that federal adjustment has passed.

(7) “Indirect partner” means a partner in a partnership or pass-through entity that itself holds an interest directly, or through another indirect partner, in a partnership or pass-through entity.

(8) “Member” means an individual who is a shareholder of an S corporation; a partner in a general partnership, a limited partnership, or a limited liability partnership; a member of a limited liability company; or a beneficiary of a trust;

(9) “Nonresident” means an individual who is not a resident of or domiciled in the state, a business entity that does not have its commercial domicile in the state, and a trust not organized in the state.

(10) “Partner” means a person that holds an interest directly or indirectly in a partnership or other pass-through entity.

(11) “Partnership” means an entity subject to taxation under Subchapter K of the IRC.

(12) “Partnership level audit” means an examination by the IRS at the partnership level pursuant to Subchapter C of Title 26, Subtitle F, Chapter 63 of the IRC, as enacted by the Bipartisan Budget Act of 2015, Public Law 114-74, which results in Federal Adjustments.

(13) “Pass-through entity” means a corporation that for the applicable tax year is treated as an S Corporation under IRC § 1362(a) [26 U.S.C. § 1362(a)], and a general partnership, limited partnership, limited liability partnership, trust, or limited liability company that for the applicable tax year is not taxed as a corporation for federal tax purposes under the state’s check-the-box regulation.

(14) “Tiered partner” means any partner that is a partnership or pass-through entity.

**(b) Withholding.**

(1) A pass-through entity shall withhold income tax at the highest Rhode Island withholding tax rate provided for individuals or seven percent (7%) for corporations on the member’s share of income of the entity that is derived from or attributable to sources within this state distributed to each nonresident

member and pay the withheld amount in the manner prescribed by the tax administrator. The pass-through entity shall be liable for the payment of the tax required to be withheld under this section and shall not be liable to the member for the amount withheld and paid over in compliance with this section. A member of a pass-through entity that is itself a pass-through entity (a “lower-tier pass-through entity”) shall be subject to this same requirement to withhold and pay over income tax on the share of income distributed by the lower-tier pass-through entity to each of its nonresident members. The tax administrator shall apply tax withheld and paid over by a pass-through entity on distributions to a lower-tier pass-through entity to the withholding required of that lower-tier pass-through entity.

(2) A pass-through entity shall, at the time of payment made pursuant to this section, deliver to the tax administrator a return upon a form prescribed by the tax administrator showing the total amounts paid or credited to its nonresident members, the amount withheld in accordance with this section, and any other information the tax administrator may require. A pass-through entity shall furnish to its nonresident member annually, but not later than the fifteenth day of the third month after the end of its taxable year, a record of the amount of tax withheld on behalf of the member on a form prescribed by the tax administrator.

(c) Notwithstanding subsection (b), a pass-through entity is not required to withhold tax for a nonresident member if:

(1) The member has a pro rata or distributive share of income of the pass-through entity from doing business in, or deriving income from sources within, this state of less than \$1,000 per annual accounting period;

(2) The tax administrator has determined by regulation, ruling, or instruction that the member’s income is not subject to withholding;

(3) The member elects to have the tax due paid as part of a composite return filed by the pass-through entity under subsection (d); or

(4) The entity is a publicly traded partnership as defined by 26 U.S.C. § 7704(b) that is treated as a partnership for the purposes of the Internal Revenue Code and that has agreed to file an annual information

return reporting the name, address, taxpayer identification number, and other information requested by the tax administrator of each unitholder with an income in the state in excess of \$500.

**(d) Composite return.**

(1) A pass-through entity may file a composite income tax return on behalf of electing nonresident members reporting and paying income tax at the state's highest marginal rate on the members' pro rata or distributive shares of income of the pass-through entity from doing business in, or deriving income from sources within, this State. For the purposes of this chapter, for tax years beginning on or after January 1, 2027, any reference to the highest marginal rate shall be the sum of the highest marginal tax rate in subparagraph 44-30-2.6(c)(3)(A)(I)(1) and the high-income surtax in subparagraph 44-30-2.6(c)(3)(A)(I)(2).

(2) A nonresident member whose only source of income within a state is from one or more pass-through entities may elect to be included in a composite return filed pursuant to this section.

(3) A nonresident member that has been included in a composite return may file an individual income tax return and shall receive credit for tax paid on the member's behalf by the pass-through entity.

**(e) Partnership level audit.**

(1) A partnership shall report final federal adjustments pursuant to IRC section 6225(a)(2) arising from a partnership level audit or an administrative adjustment request and make payments by filing the applicable supplemental return as prescribed under § 44-11-2.2(e)(1)(ii), and as required under § 44-11-19(b), in lieu of taxes owed by its direct and indirect partners.

(i) Failure of the audited partnership or tiered partner to report final federal adjustments pursuant to IRC section 6225(a) and 6225(c) or pay does not prevent the tax administrator from assessing the audited partnership, direct partners, or indirect partners for taxes they owe, using the best information available, in the event that a partnership or tiered partner fails to timely make any report or payment required by § 44-11-19(b) for any reason.

(ii) The tax administrator may promulgate rules and regulations, not inconsistent with law, to carry into effect the provisions of this chapter.

Page 97, Lines 20 through 21: Strike “until the tax year beginning January 1, 2027”

Page 97, Lines 23 through 24: Strike “may elect to pay the state tax at the entity level at the rate of eight and ninety-nine hundredths percent (8.99%)” and replace with the following language: “electing to pay the state tax in subsection (b)(1) of this section may also elect to pay the state tax at the entity level on income equal to or exceeding the amount in § 44-30-2.6(c)(3)(A)(I)(2) at the rate in § 44-30-2.6(c)(3)(A)(I)(2).”

Page 98, Line 11 through Page 100, Line 29 shall remain as originally proposed.

Strike Page 106, Line 23 through Page 121, Line 14, including the language added by GBA #5, and replace with the following language:

**“44-30-2.6. Rhode Island taxable income — Rate of tax.**

(a) “Rhode Island taxable income” means federal taxable income as determined under the Internal Revenue Code, 26 U.S.C. § 1 et seq., not including the increase in the basic, standard-deduction amount for married couples filing joint returns as provided in the Jobs and Growth Tax Relief Reconciliation Act of 2003 and the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), and as modified by the modifications in § 44-30-12.

(b) Notwithstanding the provisions of §§ 44-30-1 and 44-30-2, for tax years beginning on or after January 1, 2001, a Rhode Island personal income tax is imposed upon the Rhode Island taxable income of residents and nonresidents, including estates and trusts, at the rate of twenty-five and one-half percent (25.5%) for tax year 2001, and twenty-five percent (25%) for tax year 2002 and thereafter of the federal income tax rates, including capital gains rates and any other special rates for other types of income, except as provided in § 44-30-2.7, which were in effect immediately prior to enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA); provided, rate schedules shall be adjusted for inflation by the tax administrator beginning in taxable year 2002 and thereafter in the manner prescribed for adjustment by the commissioner of Internal Revenue in 26 U.S.C. § 1(f). However, for tax years

beginning on or after January 1, 2006, a taxpayer may elect to use the alternative flat tax rate provided in § 44-30-2.10 to calculate his or her personal income tax liability.

(c) For tax years beginning on or after January 1, 2001, if a taxpayer has an alternative minimum tax for federal tax purposes, the taxpayer shall determine if he or she has a Rhode Island alternative minimum tax. The Rhode Island alternative minimum tax shall be computed by multiplying the federal tentative minimum tax without allowing for the increased exemptions under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (as redetermined on federal form 6251 Alternative Minimum Tax-Individuals) by twenty-five and one-half percent (25.5%) for tax year 2001, and twenty-five percent (25%) for tax year 2002 and thereafter, and comparing the product to the Rhode Island tax as computed otherwise under this section. The excess shall be the taxpayer's Rhode Island alternative minimum tax.

(1) For tax years beginning on or after January 1, 2005, and thereafter, the exemption amount for alternative minimum tax, for Rhode Island purposes, shall be adjusted for inflation by the tax administrator in the manner prescribed for adjustment by the commissioner of Internal Revenue in 26 U.S.C. § 1(f).

(2) For the period January 1, 2007, through December 31, 2007, and thereafter, Rhode Island taxable income shall be determined by deducting from federal adjusted gross income as defined in 26 U.S.C. § 62 as modified by the modifications in § 44-30-12 the Rhode Island itemized-deduction amount and the Rhode Island exemption amount as determined in this section.

(A) Tax imposed.

(1) There is hereby imposed on the taxable income of married individuals filing joint returns and surviving spouses a tax determined in accordance with the following table:

If taxable income is:	The tax is:
Not over \$53,150	3.75% of taxable income
Over \$53,150 but not over \$128,500	\$1,993.13 plus 7.00% of the excess over \$53,150

Over \$128,500 but not over \$195,850	\$7,267.63 plus 7.75% of the excess over \$128,500
Over \$195,850 but not over \$349,700	\$12,487.25 plus 9.00% of the excess over \$195,850
Over \$349,700	\$26,333.75 plus 9.90% of the excess over \$349,700

**(2)** There is hereby imposed on the taxable income of every head of household a tax determined in accordance with the following table:

If taxable income is:	The tax is:
Not over \$42,650	3.75% of taxable income
Over \$42,650 but not over \$110,100	\$1,599.38 plus 7.00% of the excess over \$42,650
Over \$110,100 but not over \$178,350	\$6,320.88 plus 7.75% of the excess over \$110,100
Over \$178,350 but not over \$349,700	\$11,610.25 plus 9.00% of the excess over \$178,350
Over \$349,700	\$27,031.75 plus 9.90% of the excess over \$349,700

**(3)** There is hereby imposed on the taxable income of unmarried individuals (other than surviving spouses and heads of households) a tax determined in accordance with the following table:

If taxable income is:	The tax is:
Not over \$31,850	3.75% of taxable income
Over \$31,850 but not over \$77,100	\$1,194.38 plus 7.00% of the excess over \$31,850
Over \$77,100 but not over \$160,850	\$4,361.88 plus 7.75% of the excess over \$77,100
Over \$160,850 but not over \$349,700	\$10,852.50 plus 9.00% of the excess over \$160,850
Over \$349,700	\$27,849.00 plus 9.90% of the excess over \$349,700

(4) There is hereby imposed on the taxable income of married individuals filing separate returns and bankruptcy estates a tax determined in accordance with the following table:

If taxable income is:	The tax is:
Not over \$26,575	3.75% of taxable income
Over \$26,575 but not over \$64,250	\$996.56 plus 7.00% of the excess over \$26,575
Over \$64,250 but not over \$97,925	\$3,633.81 plus 7.75% of the excess over \$64,250
Over \$97,925 but not over \$174,850	\$6,243.63 plus 9.00% of the excess over \$97,925
Over \$174,850	\$13,166.88 plus 9.90% of the excess over \$174,850

(5) There is hereby imposed a taxable income of an estate or trust a tax determined in accordance with the following table:

If taxable income is:	The tax is:
Not over \$2,150	3.75% of taxable income
Over \$2,150 but not over \$5,000	\$80.63 plus 7.00% of the excess over \$2,150
Over \$5,000 but not over \$7,650	\$280.13 plus 7.75% of the excess over \$5,000
Over \$7,650 but not over \$10,450	\$485.50 plus 9.00% of the excess over \$7,650
Over \$10,450	\$737.50 plus 9.90% of the excess over \$10,450

(6) Adjustments for inflation.

The dollars amount contained in paragraph (A) shall be increased by an amount equal to:

- (a) Such dollar amount contained in paragraph (A) in the year 1993, multiplied by;
- (b) The cost-of-living adjustment determined under section (J) with a base year of 1993;

(c) The cost-of-living adjustment referred to in subparagraphs (a) and (b) used in making adjustments to the nine percent (9%) and nine and nine tenths percent (9.9%) dollar amounts shall be determined under section (J) by substituting “1994” for “1993.”

(B) Maximum capital gains rates.

(1) In general.

If a taxpayer has a net capital gain for tax years ending prior to January 1, 2010, the tax imposed by this section for such taxable year shall not exceed the sum of:

(a) 2.5% of the net capital gain as reported for federal income tax purposes under section 26 U.S.C. § 1(h)(1)(a) and 26 U.S.C. § 1(h)(1)(b).

(b) 5% of the net capital gain as reported for federal income tax purposes under 26 U.S.C. § 1(h)(1)(c).

(c) 6.25% of the net capital gain as reported for federal income tax purposes under 26 U.S.C. § 1(h)(1)(d).

(d) 7% of the net capital gain as reported for federal income tax purposes under 26 U.S.C. § 1(h)(1)(e).

(2) For tax years beginning on or after January 1, 2010, the tax imposed on net capital gain shall be determined under subdivision 44-30-2.6(c)(2)(A).

(C) Itemized deductions.

(1) In general.

For the purposes of section (2), “itemized deductions” means the amount of federal itemized deductions as modified by the modifications in § 44-30-12.

(2) Individuals who do not itemize their deductions.

In the case of an individual who does not elect to itemize his deductions for the taxable year, they may elect to take a standard deduction.

(3) Basic standard deduction.

The Rhode Island standard deduction shall be allowed in accordance with the following table:

Filing status	Amount
Single	\$5,350
Married filing jointly or qualifying widow(er)	\$8,900
Married filing separately	\$4,450
Head of Household	\$7,850

(4) Additional standard deduction for the aged and blind.

An additional standard deduction shall be allowed for individuals age sixty-five (65) or older or blind in the amount of \$1,300 for individuals who are not married and \$1,050 for individuals who are married.

(5) Limitation on basic standard deduction in the case of certain dependents.

In the case of an individual to whom a deduction under section (E) is allowable to another taxpayer, the basic standard deduction applicable to such individual shall not exceed the greater of:

- (a) \$850;
- (b) The sum of \$300 and such individual's earned income;
- (6) Certain individuals not eligible for standard deduction.

In the case of:

- (a) A married individual filing a separate return where either spouse itemizes deductions;

(b) Nonresident alien individual;

(c) An estate or trust;

The standard deduction shall be zero.

(7) Adjustments for inflation.

Each dollar amount contained in paragraphs (3), (4) and (5) shall be increased by an amount equal to:

(a) Such dollar amount contained in paragraphs (3), (4) and (5) in the year 1988, multiplied by

(b) The cost-of-living adjustment determined under section (J) with a base year of 1988.

(D) Overall limitation on itemized deductions.

(1) General rule.

In the case of an individual whose adjusted gross income as modified by § 44-30-12 exceeds the applicable amount, the amount of the itemized deductions otherwise allowable for the taxable year shall be reduced by the lesser of:

(a) Three percent (3%) of the excess of adjusted gross income as modified by § 44-30-12 over the applicable amount; or

(b) Eighty percent (80%) of the amount of the itemized deductions otherwise allowable for such taxable year.

(2) Applicable amount.

(a) In general.

For purposes of this section, the term “applicable amount” means \$156,400 (\$78,200 in the case of a separate return by a married individual)

(b) Adjustments for inflation.

Each dollar amount contained in paragraph (a) shall be increased by an amount equal to:

- (i) Such dollar amount contained in paragraph (a) in the year 1991, multiplied by
- (ii) The cost-of-living adjustment determined under section (J) with a base year of 1991.

(3) Phase-out of Limitation.

(a) In general.

In the case of taxable year beginning after December 31, 2005, and before January 1, 2010, the reduction under section (1) shall be equal to the applicable fraction of the amount which would be the amount of such reduction.

(b) Applicable fraction.

For purposes of paragraph (a), the applicable fraction shall be determined in accordance with the following table:

For taxable years beginning in calendar year	The applicable fraction is
2006 and 2007	$\frac{2}{3}$
2008 and 2009	$\frac{1}{3}$

(E) Exemption amount.

(1) In general.

Except as otherwise provided in this subsection, the term “exemption amount” means \$3,400.

(2) Exemption amount disallowed in case of certain dependents.

In the case of an individual with respect to whom a deduction under this section is allowable to another taxpayer for the same taxable year, the exemption amount applicable to such individual for such individual's taxable year shall be zero.

(3) Adjustments for inflation.

The dollar amount contained in paragraph (1) shall be increased by an amount equal to:

- (a) Such dollar amount contained in paragraph (1) in the year 1989, multiplied by
- (b) The cost-of-living adjustment determined under section (J) with a base year of 1989.

(4) Limitation.

(a) In general.

In the case of any taxpayer whose adjusted gross income as modified for the taxable year exceeds the threshold amount shall be reduced by the applicable percentage.

(b) Applicable percentage.

In the case of any taxpayer whose adjusted gross income for the taxable year exceeds the threshold amount, the exemption amount shall be reduced by two (2) percentage points for each \$2,500 (or fraction thereof) by which the taxpayer's adjusted gross income for the taxable year exceeds the threshold amount. In the case of a married individual filing a separate return, the preceding sentence shall be applied by substituting "\$1,250" for "\$2,500." In no event shall the applicable percentage exceed one hundred percent (100%).

(c) Threshold Amount.

For the purposes of this paragraph, the term "threshold amount" shall be determined with the following table:

Filing status	Amount
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Single	\$156,400
Married filing jointly of qualifying widow(er)	\$234,600
Married filing separately	\$117,300
Head of Household	\$195,500

(d) Adjustments for inflation.

Each dollar amount contained in paragraph (b) shall be increased by an amount equal to:

(i) Such dollar amount contained in paragraph (b) in the year 1991, multiplied by

(ii) The cost-of-living adjustment determined under section (J) with a base year of 1991.

(5) Phase-out of limitation.

(a) In general.

In the case of taxable years beginning after December 31, 2005, and before January 1, 2010, the reduction under section 4 shall be equal to the applicable fraction of the amount which would be the amount of such reduction.

(b) Applicable fraction.

For the purposes of paragraph (a), the applicable fraction shall be determined in accordance with the following table:

For taxable years beginning in calendar year	The applicable fraction is
2006 and 2007	$\frac{2}{3}$
2008 and 2009	$\frac{1}{3}$

(F) Alternative minimum tax.

(1) General rule. There is hereby imposed (in addition to any other tax imposed by this subtitle) a tax equal to the excess (if any) of:

(a) The tentative minimum tax for the taxable year, over

(b) The regular tax for the taxable year.

(2) The tentative minimum tax for the taxable year is the sum of:

(a) 6.5 percent of so much of the taxable excess as does not exceed \$175,000, plus

(b) 7.0 percent of so much of the taxable excess above \$175,000.

(3) The amount determined under the preceding sentence shall be reduced by the alternative minimum tax foreign tax credit for the taxable year.

(4) Taxable excess. For the purposes of this subsection the term “taxable excess” means so much of the federal alternative minimum taxable income as modified by the modifications in § 44-30-12 as exceeds the exemption amount.

(5) In the case of a married individual filing a separate return, subparagraph (2) shall be applied by substituting “\$87,500” for \$175,000 each place it appears.

(6) Exemption amount.

For purposes of this section “exemption amount” means:

Filing status	Amount
Single	\$39,150
Married filing jointly or qualifying widow(er)	\$53,700
Married filing separately	\$26,850
Head of Household	\$39,150

Estate or trust \$24,650

(7) Treatment of unearned income of minor children

(a) In general.

In the case of a minor child, the exemption amount for purposes of section (6) shall not exceed the sum of:

(i) Such child's earned income, plus

(ii) \$6,000.

(8) Adjustments for inflation.

The dollar amount contained in paragraphs (6) and (7) shall be increased by an amount equal to:

(a) Such dollar amount contained in paragraphs (6) and (7) in the year 2004, multiplied by

(b) The cost-of-living adjustment determined under section (J) with a base year of 2004.

(9) Phase-out.

(a) In general.

The exemption amount of any taxpayer shall be reduced (but not below zero) by an amount equal to twenty-five percent (25%) of the amount by which alternative minimum taxable income of the taxpayer exceeds the threshold amount.

(b) Threshold amount.

For purposes of this paragraph, the term "threshold amount" shall be determined with the following table:

Filing status	Amount
Single	\$123,250

Married filing jointly or qualifying widow(er)	\$164,350
Married filing separately	\$82,175
Head of Household	\$123,250
Estate or Trust	\$82,150

(c) Adjustments for inflation

Each dollar amount contained in paragraph (9) shall be increased by an amount equal to:

- (i) Such dollar amount contained in paragraph (9) in the year 2004, multiplied by
- (ii) The cost-of-living adjustment determined under section (J) with a base year of 2004.

(G) Other Rhode Island taxes.

(1) General rule. There is hereby imposed (in addition to any other tax imposed by this subtitle) a tax equal to twenty-five percent (25%) of:

- (a) The Federal income tax on lump-sum distributions.
  - (b) The Federal income tax on parents' election to report child's interest and dividends.
  - (c) The recapture of Federal tax credits that were previously claimed on Rhode Island return.
- (H) Tax for children under 18 with investment income.

(1) General rule. There is hereby imposed a tax equal to twenty-five percent (25%) of:

- (a) The Federal tax for children under the age of 18 with investment income.
- (I) Averaging of farm income.

(1) General rule. At the election of an individual engaged in a farming business or fishing business, the tax imposed in section 2 shall be equal to twenty-five percent (25%) of:

(a) The Federal averaging of farm income as determined in IRC section 1301 [26 U.S.C. § 1301].

(J) Cost-of-living adjustment.

(1) In general.

The cost-of-living adjustment for any calendar year is the percentage (if any) by which:

(a) The CPI for the preceding calendar year exceeds

(b) The CPI for the base year.

(2) CPI for any calendar year.

For purposes of paragraph (1), the CPI for any calendar year is the average of the consumer price index as of the close of the twelve (12) month period ending on August 31 of such calendar year.

(3) Consumer price index.

For purposes of paragraph (2), the term “consumer price index” means the last consumer price index for all urban consumers published by the department of labor. For purposes of the preceding sentence, the revision of the consumer price index that is most consistent with the consumer price index for calendar year 1986 shall be used.

(4) Rounding.

(a) In general.

If any increase determined under paragraph (1) is not a multiple of \$50, such increase shall be rounded to the next lowest multiple of \$50.

(b) In the case of a married individual filing a separate return, subparagraph (a) shall be applied by substituting “\$25” for \$50 each place it appears.

(K) Credits against tax. For tax years beginning on or after January 1, 2001, a taxpayer entitled to any of the following federal credits enacted prior to January 1, 1996, shall be entitled to a credit against the Rhode Island tax imposed under this section:

- (1) [Deleted by P.L. 2007, ch. 73, art. 7, § 5.]
- (2) Child and dependent care credit;
- (3) General business credits;
- (4) Credit for elderly or the disabled;
- (5) Credit for prior year minimum tax;
- (6) Mortgage interest credit;
- (7) Empowerment zone employment credit;
- (8) Qualified electric vehicle credit.

(L) Credit against tax for adoption. For tax years beginning on or after January 1, 2006, a taxpayer entitled to the federal adoption credit shall be entitled to a credit against the Rhode Island tax imposed under this section if the adopted child was under the care, custody, or supervision of the Rhode Island department of children, youth and families prior to the adoption.

(M) The credit shall be twenty-five percent (25%) of the aforementioned federal credits provided there shall be no deduction based on any federal credits enacted after January 1, 1996, including the rate reduction credit provided by the federal Economic Growth and Tax Reconciliation Act of 2001 (EGTRRA). In no event shall the tax imposed under this section be reduced to less than zero. A taxpayer required to recapture any of the above credits for federal tax purposes shall determine the Rhode Island amount to be recaptured in the same manner as prescribed in this subsection.

(N) Rhode Island earned-income credit.

(1) In general.

For tax years beginning before January 1, 2015, a taxpayer entitled to a federal earned-income credit shall be allowed a Rhode Island earned-income credit equal to twenty-five percent (25%) of the federal earned-income credit. Such credit shall not exceed the amount of the Rhode Island income tax.

For tax years beginning on or after January 1, 2015, and before January 1, 2016, a taxpayer entitled to a federal earned-income credit shall be allowed a Rhode Island earned-income credit equal to ten percent (10%) of the federal earned-income credit. Such credit shall not exceed the amount of the Rhode Island income tax.

For tax years beginning on or after January 1, 2016, a taxpayer entitled to a federal earned-income credit shall be allowed a Rhode Island earned-income credit equal to twelve and one-half percent (12.5%) of the federal earned-income credit. Such credit shall not exceed the amount of the Rhode Island income tax.

For tax years beginning on or after January 1, 2017, a taxpayer entitled to a federal earned-income credit shall be allowed a Rhode Island earned-income credit equal to fifteen percent (15%) of the federal earned-income credit. Such credit shall not exceed the amount of the Rhode Island income tax.

For tax years beginning on or after January 1, 2024, a taxpayer entitled to a federal earned-income credit shall be allowed a Rhode Island earned-income credit equal to sixteen percent (16%) of the federal earned-income credit. Such credit shall not exceed the amount of the Rhode Island income tax.

(2) Refundable portion.

In the event the Rhode Island earned-income credit allowed under paragraph (N)(1) of this section exceeds the amount of Rhode Island income tax, a refundable earned-income credit shall be allowed as follows.

(i) For tax years beginning before January 1, 2015, for purposes of paragraph (2) refundable earned-income credit means fifteen percent (15%) of the amount by which the Rhode Island earned-income credit exceeds the Rhode Island income tax.

(ii) For tax years beginning on or after January 1, 2015, for purposes of paragraph (2) refundable earned-income credit means one hundred percent (100%) of the amount by which the Rhode Island earned-income credit exceeds the Rhode Island income tax.

(O) The tax administrator shall recalculate and submit necessary revisions to paragraphs (A) through (J) to the general assembly no later than February 1, 2010, and every three (3) years thereafter for inclusion in the statute.

(3) For the period January 1, 2011, through December 31, 2011, and thereafter, “Rhode Island taxable income” means federal adjusted gross income as determined under the Internal Revenue Code, 26 U.S.C. § 1 et seq., and as modified for Rhode Island purposes pursuant to § 44-30-12 less the amount of Rhode Island Basic Standard Deduction allowed pursuant to subparagraph 44-30-2.6(c)(3)(B), and less the amount of personal exemption allowed pursuant to subparagraph 44-30-2.6(c)(3)(C).

(A) Tax imposed.

(I) There is hereby imposed on the taxable income of married individuals filing joint returns, qualifying widow(er), every head of household, unmarried individuals, married individuals filing separate returns and bankruptcy estates, a tax determined in accordance with the following table:

(1)

RI Taxable Income		RI Income Tax	
Over	But not over	Pay + % on Excess	on the amount over
\$ 0 -	\$ 55,000	\$ 0 + 3.75%	\$ 0

55,000 -	125,000	2,063 + 4.75%	55,000
125,000 -		5,388 + 5.99%	125,000

**(2) High-income surtax.** For tax years beginning on or after January 1, 2027, there is hereby imposed on the taxable income of married individuals filing joint returns, qualifying widow(er), every head of household, unmarried individuals, married individuals filing separate returns and bankruptcy estates, a tax at three percent (3%) of Rhode Island taxable income over \$1,000,000.

**(3) Highest Rhode Island withholding tax rate provided for individuals.** For the purposes of this chapter, for tax years beginning on or after January 1, 2027, any reference to the highest Rhode Island withholding tax rate provided for individuals shall be the sum of the highest marginal tax rate in subparagraph 44-30-2.6(c)(3)(A)(I)(1) and the high-income surtax in subparagraph 44-30-2.6(c)(3)(A)(I)(2).

**(4) Personal Income Tax.** For the purposes of this title, any reference to personal income tax for individuals shall include the tax imposed in subparagraph 44-30-2.6(c)(3)(A)(I)(1) and the high-income surtax in subparagraph 44-30-2.6(c)(3)(A)(I)(2).

(II) There is hereby imposed on the taxable income of an estate or trust a tax determined in accordance with the following table:

(1)

RI Taxable Income		RI Income Tax	
Over	But not over	Pay + % on Excess	on 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

**(2) High-income surtax.** For tax years beginning on or after January 1, 2027, there is hereby imposed on the taxable income of an estate or trust, a tax at three percent (3%) of Rhode Island taxable income over \$36,427.

**(3) Personal Income Tax.** For the purposes of this title, any reference to personal income tax for an estate or trust shall include the tax imposed in subparagraph 44-30-2.6(c)(3)(A)(II)(1) and the high-income surtax in subparagraph 44-30-2.6(c)(3)(A)(II)(2).

(B) Deductions:

(I) Rhode Island Basic Standard Deduction.

Only the Rhode Island standard deduction shall be allowed in accordance with the following table:

Filing status	Amount
Single	\$7,500
Married filing jointly or qualifying widow(er)	\$15,000
Married filing separately	\$7,500
Head of Household	\$11,250

(II) Nonresident alien individuals, estates and trusts are not eligible for standard deductions.

(III) In the case of any taxpayer whose adjusted gross income, as modified for Rhode Island purposes pursuant to § 44-30-12, for the taxable year exceeds one hundred seventy-five thousand dollars (\$175,000), the standard deduction amount shall be reduced by the applicable percentage. The term “applicable percentage” means twenty (20) percentage points for each five thousand dollars (\$5,000) (or fraction thereof) by which the taxpayer’s adjusted gross income for the taxable year exceeds one hundred seventy-five thousand dollars (\$175,000).

(C) Exemption Amount:

(I) The term “exemption amount” means three thousand five hundred dollars (\$3,500) multiplied by the number of exemptions allowed for the taxable year for federal income tax purposes. For tax years beginning on or after 2018, the term “exemption amount” means the same as it does in 26 U.S.C. § 151 and 26 U.S.C. § 152 just prior to the enactment of the Tax Cuts and Jobs Act (Pub. L. No. 115-97) on December 22, 2017.

(II) Disallowance of Exemptions

(1) Exemption amount disallowed in case of certain dependents. In the case of an individual with respect to whom a deduction under this section is allowable to another taxpayer for the same taxable year, the exemption amount applicable to such individual for such individual’s taxable year shall be zero.

(2) Exemption amount disallowed for Child Tax Credit. For tax years beginning on or after January 1, 2027, the exemption amount applicable to a claimed child dependent of an eligible taxpayer, as defined in § 44-30-104, on a resident tax return shall be zero and a credit as defined in § 44-30-104 for each claimed child dependent shall be granted.

(III) Identifying information required.

(1) Except as provided in § 44-30-2.6(c)(3)(C)(II) of this section, no exemption shall be allowed under this section with respect to any individual unless the Taxpayer Identification Number of such individual is included on the federal return claiming the exemption for the same tax filing period.

(2) Notwithstanding the provisions of § 44-30-2.6(c)(3)(C)(I) of this section, in the event that the Taxpayer Identification Number for each individual is not required to be included on the federal tax return for the purposes of claiming a personal exemption(s), then the Taxpayer Identification Number must be provided on the Rhode Island tax return for the purpose of claiming said exemption(s).

(D) In the case of any taxpayer whose adjusted gross income, as modified for Rhode Island purposes pursuant to § 44-30-12, for the taxable year exceeds one hundred seventy-five thousand dollars (\$175,000), the exemption amount shall be reduced by the applicable percentage. The term “applicable percentage” means twenty (20) percentage points for each five thousand dollars (\$5,000) (or fraction thereof) by which the taxpayer’s adjusted gross income for the taxable year exceeds one hundred seventy-five thousand dollars (\$175,000).

(E) Adjustment for inflation. The dollar amount contained in subparagraphs 44-30-2.6(c)(3)(A), 44-30-2.6(c)(3)(B) and 44-30-2.6(c)(3)(C) shall be increased annually by an amount equal to:

(I) Such dollar amount contained in subparagraphs 44-30-2.6(c)(3)(A), 44-30-2.6(c)(3)(B) and 44-30-2.6(c)(3)(C) adjusted for inflation using a base tax year of 2000, multiplied by;

(II) The cost-of-living adjustment with a base year of 2000.

(III) For tax years beginning on or after January 1, 2027, for subparagraphs 44-30-2.6(c)(3)(A)(I)(2) and 44-30-2.6(c)(3)(A)(II)(2), the base tax year and the base year shall be 2026.

(IV) For the purposes of this section, the cost-of-living adjustment for any calendar year is the percentage (if any) by which the consumer price index for the preceding calendar year exceeds the consumer price index for the base year. The consumer price index for any calendar year is the average of the consumer price index as of the close of the twelve-month (12) period ending on August 31, of such calendar year.

(V) For the purpose of this section the term “consumer price index” means the last consumer price index for all urban consumers published by the department of labor. For the purpose of this section the revision of the consumer price index that is most consistent with the consumer price index for calendar year 1986 shall be used.

(VI) If any increase determined under this section is not a multiple of fifty dollars (\$50.00), such increase shall be rounded to the next lower multiple of fifty dollars (\$50.00). In the case of a married

individual filing separate return, if any increase determined under this section is not a multiple of twenty-five dollars (\$25.00), such increase shall be rounded to the next lower multiple of twenty-five dollars (\$25.00).

(F) Credits against tax.

(I) Notwithstanding any other provisions of Rhode Island Law, for tax years beginning on or after January 1, 2011, the only credits allowed against a tax imposed under this chapter shall be as follows:

(a) Rhode Island earned-income credit: Credit shall be allowed for earned-income credit pursuant to subparagraph 44-30-2.6(c)(2)(N).

(b) Property Tax Relief Credit: Credit shall be allowed for property tax relief as provided in § 44-33-1 et seq.

(c) Lead Paint Credit: Credit shall be allowed for residential lead abatement income tax credit as provided in § 44-30.3-1 et seq.

(d) Credit for income taxes of other states. Credit shall be allowed for income tax paid to other states pursuant to § 44-30-74.

(e) Historic Structures Tax Credit: Credit shall be allowed for historic structures tax credit as provided in § 44-33.2-1 et seq.

(f) Motion Picture Productions Tax Credit: Credit shall be allowed for motion picture production tax credit as provided in § 44-31.2-1 et seq.

(g) Child and Dependent Care: Credit shall be allowed for twenty-five percent (25%) of the federal child and dependent care credit allowable for the taxable year for federal purposes; provided, however, such credit shall not exceed the Rhode Island tax liability.

(h) Tax credits for contributions to Scholarship Organizations: Credit shall be allowed for contributions to scholarship organizations as provided in chapter 62 of title 44.

(i) Credit for tax withheld. Wages upon which tax is required to be withheld shall be taxable as if no withholding were required, but any amount of Rhode Island personal income tax actually deducted and withheld in any calendar year shall be deemed to have been paid to the tax administrator on behalf of the person from whom withheld, and the person shall be credited with having paid that amount of tax for the taxable year beginning in that calendar year. For a taxable year of less than twelve (12) months, the credit shall be made under regulations of the tax administrator.

(j) Stay Invested in RI Wavemaker Fellowship: Credit shall be allowed for stay invested in RI wavemaker fellowship program as provided in § 42-64.26-1 et seq.

(k) Rebuild Rhode Island: Credit shall be allowed for rebuild RI tax credit as provided in § 42-64.20-1 et seq.

(l) Rhode Island Qualified Jobs Incentive Program: Credit shall be allowed for Rhode Island new qualified jobs incentive program credit as provided in § 44-48.3-1 et seq.

(m) Historic homeownership assistance act: Effective for tax year 2017 and thereafter, unused carryforward for such credit previously issued shall be allowed for the historic homeownership assistance act as provided in § 44-33.1-4. This allowance is for credits already issued pursuant to § 44-33.1-4 and shall not be construed to authorize the issuance of new credits under the historic homeownership assistance act.

(n) Child Tax Credit: Effective for tax years beginning on or after January 1, 2027, credit shall be allowed for the Child Tax Credit as provided in § 44-30-104.

(2) Except as provided in section 1 above, no other state and federal tax credit shall be available to the taxpayers in computing tax liability under this chapter.”

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\*Please note that the proposed amendments to this section regarding the Child Tax Credit remain as originally proposed.

Page 121, Line 15 through Page 130, Line 3 shall remain as originally proposed.