

Analysis of H.R. 1 Tax Provisions

Rhode Island Department of Revenue

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Executive Summary

Introduction

Advisory Working Group

Pursuant to R.I. Gen. Laws § 42-142-2(a)(7), the Rhode Island Department of Revenue (DOR) was provided with the authority to convene an advisory working group to assist with the review and analysis of potential impacts due to federal actions, including recently enacted federal legislation. The advisory working group consisted of the following members:

- Director of DOR;
- Senior Advisor, Office of the Governor;
- Tax Administrator;
- Chief of Revenue Analysis;
- Director of the Office of Management and Budget;
- President of the Rhode Island AFL-CIO;
- President and CEO of the Rhode Island Public Expenditure Council;
- Interim President of the Hospital Association of Rhode Island;
- Executive Director of the Economic Progress Institute;
- President/CEO of the Rhode Island Hospitality Association;
- President of the Greater Providence Chamber of Commerce;
- President/CEO of the Northern Rhode Island Chamber of Commerce; and
- President/CEO of the Greater Newport Chamber of Commerce
- Members from the certified public accountant community.

The advisory working group held several meetings to discuss federal impacts on Rhode Island revenues beginning in Tax Year 2026 with the goal of developing policy options in response to the enactment of the federal law commonly known as the “One Big Beautiful Bill Act” (Pub. L. No.: 119-21, H.R.1, 119th Cong. (2025)) (“H.R. 1”) to preserve Rhode Island revenues while also balancing the interests of the state’s taxpayers. This report has been developed in conjunction with the advisory working group and the analysis of the Office of Revenue Analysis and is being issued as required pursuant to R.I. Gen. Laws § 42-142-2(c).

H.R. 1

H.R. 1 contains 111 separate tax-related provisions. This report estimates that those provisions will reduce state revenue by \$34.7 million in state fiscal year (FY) 2026 and \$36.4 million in FY 2027, and by an average of \$15.0 million in the following three years. Rhode Island has rolling conformity to federal tax law (with some exceptions), meaning changes in

federal definitions and statutory policy automatically get incorporated into the state tax code. Therefore, many federal tax changes directly impact how Rhode Island taxpayers file their taxes, unless there is legislative intervention.

H.R. 1 was prompted by the expiration on December 31, 2025, of many of the personal income tax elements of the 2017 Tax Cuts and Jobs Act (TCJA), the last major federal tax legislation prior to H.R. 1. TCJA was a tax reform bill that attempted to lower tax rates while also expanding the federal tax base. Rhode Island is generally coupled to federal definitions of income but not federal tax rates, meaning the base broadening under TCJA increased state revenue collections. In contrast, H.R. 1 contains a variety of extensions, modifications of current policy, and a wide range of new policy proposals. Most of the provisions with a direct state impact have negative revenue estimates.

While H.R. 1 is focused on extending TCJA personal income tax policy, most of the Rhode Island impact stems from changes to business taxation. Much of that impact relates to increased ability to deduct expenses for federal tax purposes, which flows down to state tax returns. These business provisions may impact Rhode Island's personal income tax or corporate income tax depending on the type of taxpayer (generally, pass-through entities or C corporations). This report attempts to assign impacts to each of these two tax types.

Structure of the Report

This report is comprised of two main sections: federal provisions with a state revenue impact and federal provisions without a state revenue impact. Under each of these two main categories, the report groups provisions by whether they were (1) extensions of policy under TCJA, (2) elements of TCJA that were extended but modified, or (3) new policies enacted by H.R. 1. Generally, changes in income, deductions, or credits directly flow from the federal tax return to the state tax return so federal tax provisions impact state tax, with certain exceptions, and state tax filings may be directly impacted.

Rhode Island tax filings begin with a taxpayer's federal adjusted gross income (AGI) for individuals or federal taxable income (FTI) for businesses. These two terms are referenced throughout this report. Generally, if a policy change impacts AGI (generally through what is known as above-the-line deductions) or FTI, there will be a direct state revenue impact.

Provisions without a direct state revenue impact may still impact state revenues, state taxpayers, and the state's economy. These are captured by this report's discussion of indirect impacts. Two examples are illustrative. First, H.R. 1 creates a scholarship tax credit, which states must choose to opt in to or opt out of. This scholarship tax credit may interact with Rhode Island's current tax credit for contributions to scholarship organizations. Secondly, H.R. 1 raises reporting thresholds for some IRS forms, such as Form 1099. Such

provisions do not directly change state liability but may impact income reporting and tax compliance. There are also many provisions that may impact the state's economy by altering behavioral incentives by increasing or decreasing federal post-tax income.

The report presents options in response to the provision of H.R. 1. The default option, remaining coupled to federal law, is not presented as a discrete option but is summarized in the direct impact sections and cost tables. Most of the provisions with a direct state impact include an option to fully decouple from the federal change; the benefit of these options is the avoidance of the revenue loss described in the cost tables. Some of the provisions without a direct impact contain policy options, which often consist of proactively adopting a state-level version of a new H.R. 1 provision. These options would cause a revenue change that is usually unknown and would require further analysis to assess the impact on the state. Additionally, as noted by members of the advisory working group, the complexity of complying with and administering the tax provisions must also be considered. Tax administrability issues are not possible to address fully in this report given that Internal Revenue Service guidance for most of these provisions will likely be issued in 2026.

Estimating Impacts

DOR engaged with Chainbridge Software LLC (Chainbridge) to model the direct state revenue impacts of H.R. 1. The revenue estimates in this report are the result of that work. Most of the revenue estimates were derived using the federal impact as quantified by the Joint Committee on Taxation (JCT), shared down to reflect Rhode Island's population and tax laws. This presumes that Rhode Island taxpayers are similar to the average national taxpayer when it comes to how they are impacted by H.R. 1. Some of the estimates were derived from personal income tax data shared by DOR with Chainbridge. Both types of estimates are subject to error and should be viewed as best approximations of the state impact. Actual impact will depend on taxpayer behavior, federal tax form treatment, the timing of tax filings, and economic conditions.

The JCT scored H.R. 1 on both a current law baseline and a current policy baseline. A current law baseline, the standard approach, assumes any changes to the law as currently written have a revenue impact. As a result, under this baseline, the JCT scored the extension of the TCJA tax cuts with a revenue loss. A current policy baseline assumes the status quo would continue (even if the law said otherwise), and only changes from the status quo have a revenue impact. This means any TCJA extensions were scored as having no cost.

Generally, Rhode Island revenue estimates (such as those adopted at the biannual Revenue Estimating Conference) use a current law baseline. However, Rhode Island's revenue estimates and five-year forecast had not made explicit assumptions about the phase out of

TCJA provisions. This means that the state was essentially operating under a current policy baseline for revenue forecasting regarding the TCJA. Also, historical revenue collections figures, by their very nature, depict a status quo environment. Because of these two facts, this report uses a current policy basis (and the associated JCT estimates from this scenario) and only notes a revenue impact for provisions that modify current policy.

JCT scoring is done on a federal fiscal year basis. Chainbridge converted these federal fiscal years to calendar years, and then to Rhode Island state fiscal years. In addition, for SFY 2026, Chainbridge removed any impacts related to TY 2025 (or earlier tax years). As discussed below, Rhode Island is decoupled from TY 2025 H.R. 1 provisions with a negative revenue impact to the state. This means that, generally, SFY 2026 estimates represent a half year of impact.

Additional Analysis

DOR has incorporated feedback and comments on the impacts of H.R. 1 and possible policy responses from the advisory working group, which DOR convened and which included a range of state stakeholders that met four times in August and September 2025. Those comments appear both in the report and in Appendix A.

DOR also examined incidence analysis of H.R. 1 published by various experts, which is collected in Appendix B. DOR also constructed several taxpayer profiles to examine the state and federal impact of H.R. 1. These profiles are focused on personal income taxpayers and are meant to be illustrative examples rather than comprehensive summaries of the impacts of the federal legislation.

Tax Year 2025

While this report focuses on revenue impacts of federal provisions starting in TY 2026, there are impacts on tax year (TY) 2025 and prior that were addressed in Rhode Island's most recent enacted budget. The Rhode Island Fiscal Year (FY) 2026 Enacted Budget decoupled the state from any provisions in H.R. 1 where any income, deduction, or allowance would have been taxable federally but for its passage for TY 2025 or earlier tax years.¹ The Division of Taxation will be issuing emergency regulations with respect to the decoupling and has issued guidance for taxpayers and tax professionals. DOR and Chainbridge estimate that, absent this decoupling, Rhode Island's general revenues would have been reduced by approximately \$79 million (largely in FY 2026). The largest portion of that reduction, estimated to cost the state \$65.8 million, would have been as the result of full expensing of research and development expenditures, which is retroactive to TY 2022 for some taxpayers.

¹ 2025-H-5076Aaa, Article 5, Sections 4 and 5.

The other provisions with significant impacts are the modification of the limitation on business interest (\$10.1 million potential revenue loss) and the increased dollar limitations for expensing certain assets (\$2.8 million potential revenue loss). Any taxpayers utilizing these provisions at the federal level are required to have concomitant add backs on their Rhode Island tax returns.

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Provisions With a State Revenue Impact

Summary Table of Impacts

Below are the estimated state general revenue impacts, starting in TY 2026. These estimates are against a current policy baseline, and do not include the impacts of extending existing TCJA provisions.

	SFY 2026	SFY 2027	SFY 2028	SFY 2029	SFY 2030
TCJA Extensions with Modifications					
Business Interest Limitation	\$(3.7M)	\$(4.0M)	\$(2.5M)	\$(2.6M)	\$(2.4M)
Expensing Limitation	\$(2.9M)	\$(3.6M)	\$(2.5M)	\$(2.3M)	\$(1.8M)
Miscellaneous Business	\$(0.2M)	\$(0.2M)	\$(0.1M)	\$0.1M	\$0.2M
R&D Expensing	\$(22.6M)	\$(22.6M)	\$(10.9M)	\$(8.0M)	\$(2.8M)
SALT Deduction Cap	\$(5.2M)	\$(5.2M)	\$(5.2M)	\$(5.2M)	\$(5.2M)
H.R. 1 New Provisions					
Agriculture	\$(0.6M)	\$(2.1M)	\$(1.9M)	\$(0.9M)	\$(0.4M)
Charitable Deductions	\$0.9M	\$1.6M	\$1.8M	\$1.7M	\$1.6M
Child Care and Adoption	\$(0.5M)	\$(1.4M)	\$(1.6M)	\$(1.5M)	\$(1.6M)
Energy Efficiency	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Energy Production	\$0.0M	\$0.1M	\$0.1M	\$0.0M	\$0.0M
Housing	\$(0.4M)	\$(0.5M)	\$(0.3M)	\$(0.2M)	\$(0.1M)
International	\$0.7M	\$2.1M	\$3.3M	\$4.7M	\$5.2M
Miscellaneous Healthcare	\$(0.2M)	\$(0.6M)	\$(0.9M)	\$(1.0M)	\$(1.1M)
Small Business Stock Gains	\$0.0M	\$0.1M	\$0.0M	\$(0.1M)	\$(0.9M)
Total	\$(34.7M)	\$(36.4M)	\$(20.6M)	\$(15.2M)	\$(9.3M)

TCJA Extensions with Modifications

Business Interest Limitation (Sections 70303, 70341, 70342)

Description: TCJA limited the deduction for interest expense to 30% of “adjusted taxable income” (ATI) for the year. Initially, ATI was defined as earnings before interest, taxes, depreciation and amortization (EBITDA). Starting in 2022, that definition was limited to earnings before interest and taxes (EBIT). This narrower definition meant the allowable deduction became smaller (increasing tax liability).

Change: H.R. 1 restores the definition of ATI to the broader EBITDA starting in 2025, decreasing tax liability. H.R. 1 also made two other changes to this limitation that are revenue positive:

- Applies the business interest limitation to interest that has been capitalized (such as adding the interest expense to the cost of an asset that is then expensed over time), thereby broadening the interest to which the limitation applies, and

- Removes some international income included in gross income (subpart F, GILTI, Section 78 gross-up, and Section 956) from the definition of ATI, thereby narrowing the definition of ATI and thus narrowing the possible deduction.

Effective Date / Milestones: January 1, 2025, for the change to using EBITDA in the definition of ATI; January 1, 2026, for the other two changes that are revenue positive.

State Impacts (Direct and Indirect): Direct: The business interest limitation, found in Internal Revenue Code (IRC) § 163(j), changes corporate taxable income. This then flows down to “total income” and then to AGI on the IRS Form 1040 for pass-through entity members or “taxable income” on IRS Form 1120. Because AGI and taxable income are the starting places for Rhode Island personal and corporate income taxes, respectively, this will impact state tax revenue. Under current state law, Rhode Island is decoupled from the federal change to the definition of ATI for TY 2025 only.

Indirect: This will increase business after-tax income and may lead to more business spending in the state.

Cost Type	SFY 2026	SFY 2027	SFY 2028	SFY 2029	SFY 2030
	GR	GR	GR	GR	GR
Personal Income Tax	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Corporate Income Tax	\$(3.7M)	\$(4.0M)	\$(2.5M)	\$(2.6M)	\$(2.4M)
Total	\$(3.7M)	\$(4.0M)	\$(2.5M)	\$(2.6M)	\$(2.4M)

Option 1: Decouple from all federal changes to the business interest limitation for TY 2026 and beyond.

- *Advantages:* Would preserve state revenue and create consistency with the TY 2025 treatment such that stakeholders will not have to again implement and expend resources to change forms and practices.
- *Disadvantages:* Rhode Island businesses would be at a disadvantage compared to states that fully couple to the federal definition. This would require Rhode Island taxpayers to recalculate their business interest deduction and add back the difference on their state taxes. Decoupling creates complexity in tax filing and administration and may discourage investment by businesses.

Option 2: Decouple from only Section 70303 of H.R. 1, which changed the definition of ATI to EBITDA.

- *Advantages:* Would preserve additional revenue beyond Option 1 by only decoupling from the provision that reduces revenue while remaining coupled to the provisions that gain revenue. This would increase state revenue by \$4.4M in FY 2026 and \$5.9M in FY 2027.
- *Disadvantages:* Rhode Island businesses would be at a disadvantage compared to states that fully couple to the federal definition. This would require Rhode Island taxpayers to continue to recalculate their business interest deduction, as they are required to do for TY 2025, and add back the difference on their state taxes. Decoupling creates complexity in tax filing and administration and may discourage investment by businesses.

Option 3: Set a lower business interest limitation percentage than the federal 30% limitation.

- *Advantages:* Would preserve revenue but allow Rhode Island to mostly stay coupled to the federal definitions. This may decrease the complexity of tax filing and administration compared to Options 1 and 2.
- *Disadvantages:* The amount of revenue gain from this option may be impractical to estimate. Further, there would need to be resources expended by all stakeholders to address reverting to be coupled to the federal provisions but for a lower business interest limitation.

Other Considerations: None.

Expensing Limitation (Section 70306)

Description: TCJA created a dollar limitation on how much qualifying property could be expensed under IRC Section 179 (rather than recovered through depreciation). Qualifying property is defined as depreciable tangible personal property (such as equipment or machinery), off-the-shelf computer software, and qualified real property. This limitation is adjusted for inflation and is currently \$1.25 million in 2025. In addition, the TCJA stated that if a taxpayer places in service an amount of property over an additional threshold, their expensing limitation is reduced (which is a way to phase down the limitation for larger taxpayers). This threshold was \$3.13 million in TY 2025. For example, a taxpayer with \$4 million in property placed in service in TY 2025 would be allowed \$380,000 in Section 179 expensing for that tax year ($\$1,250,000 - (\$4,000,000 - \$3,130,000)$).

There is significant overlap between which property qualifies under Section 179 expensing and bonus depreciation (IRC Section 168(k)). H.R. 1 restores 100% bonus depreciation expensing, which is covered elsewhere in this report. However, certain expenses (such as certain improvements to nonresidential real property like roofs, HVAC systems, and security systems) only qualify under Section 179.

Change: H.R. 1 increased the limitation and the threshold to \$2.5 million and \$4 million respectively. These amounts are adjusted for inflation starting in 2026.

Effective Date / Milestones: Property placed in service after December 31, 2024.

State Impacts (Direct and Indirect): Direct: For corporations, Section 179 lowers taxable income, which is the starting place for Rhode Island corporate taxes. For pass-through businesses, these expenses would reduce the amount of income passed through to the members and thus reduce federal AGI (which directly impacts Rhode Island tax liability).

Indirect: The increased Section 179 limitations may increase capital expenditures by businesses.

Cost Type	SFY 2026	SFY 2027	SFY 2028	SFY 2029	SFY 2030
	GR	GR	GR	GR	GR
Personal Income Tax	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Corporate Income Tax	\$(2.9M)	\$(3.6M)	\$(2.5M)	\$(2.3M)	\$(1.8M)
Total	\$(2.9M)	\$(3.6M)	\$(2.5M)	\$(2.3M)	\$(1.8M)

Option 1: Decouple from the higher limitation on Section 179 expensing.

- *Advantages:* Would preserve state revenue and create consistency with the TY 2025 treatment such that stakeholders will not have to again implement and expend resources to change forms and practices.
- *Disadvantages:* Would complicate tax filing for Rhode Island businesses, who will have to calculate their allowable Section 179 expenses at both the federal and state levels, which is already required for TY 2025. This may discourage capital investment by Rhode Island firms or shift it out of state.

Other Considerations: Rhode Island is currently decoupled from bonus depreciation but not Section 179 expensing. This might influence how Rhode Island taxpayers claim these

expenses at the federal level; allowing for a choice between the methods will impact state tax liability. The Rhode Island Society of CPAs noted that decoupling from expensing provisions in H.R. 1 will add complexity for taxpayers and the Division of Taxation, and represents a shift of the timing of tax liability rather than an ongoing reduction in revenue.

International (Sections 70311, 70312, 70313, 70321, 70322, 70323, 70331, 70351, 70352, 70353, 70354)

Description: TCJA changed U.S. federal business taxation from a worldwide system to a water's edge system. However, to avoid the incentive to shift income to low-taxed jurisdictions, TCJA subjected some of this income of controlled foreign corporations (CFCs) to U.S. taxation under global intangible low-taxed income (GILTI). The law excluded 10% of income (under the qualified business asset investment (QBAI) exclusion) from this taxable income as representing normal returns (with the goal of taxing "supernormal" returns such as those that might accrue from a taxpayer shifting intangible assets overseas). It then allowed a 50% deduction (IRC Section 250) against GILTI income, which lowered the tax rate from 21% (the U.S. corporate income tax rate) to 10.5%. TCJA also allowed a credit worth 80% of foreign taxes paid against this liability, which resulted in an effective tax rate of 13.125%.

TCJA also established foreign-derived intangible income (FDII), which is a counterpart to GILTI. While GILTI represents foreign income of multinational companies, FDII is income of those companies that is attributed to the U.S. This income is also taxed at 13.125%. The goal of these two provisions was to encourage companies to shift profits back to the U.S. by creating lower taxes and equalizing the rates for foreign or domestic income.

Finally, TCJA created the base erosion and anti-abuse tax (BEAT). This is a 10% minimum tax that disallows excessive deductions for activity between related U.S. and foreign companies. That kind of activity can be used to reduce the taxable income of the U.S. corporation.

Change: H.R. 1 converted GILTI to net CFC-tested income (NCTI) and FDII to foreign derived deduction eligible income (FDDEI). The bill made the following policy changes:

- The QBAI exclusion, which was aimed at excluding normal returns from taxation, is eliminated,
- The 50% Section 250 deduction is now 40%,
- More expenses are sourced to the U.S.-based parent company of CFCs rather than the CFCs themselves, and
- The foreign tax credit inclusion is raised from 80% to 90%.

The effective tax rates for these policies were changes, with the NTCI tax rate at 12.6% (rising to 14% when adjusting for the foreign tax credit allowance), the FDDEI tax rate at 14%, and the BEAT tax rate at 10.5%.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): Direct: Rhode Island includes GILTI (known as NCTI starting January 1, 2026) income as taxable income under the business corporation tax (also known as the corporate income tax). H.R. 1 expanded the income base for NCTI from the status quo by eliminating the QBAI exclusion and lowering the Section 250 deduction. While H.R. 1 made offsetting changes that reduced federal tax liability (such as increasing the level of foreign tax credits that could be claimed against NCTI), those changes are not picked up on the Rhode Island corporate tax return. This means Rhode Island will see a positive revenue impact from being coupled to these international tax changes.

Indirect: Rhode Island’s inclusion of NCTI income in the state tax base may impact corporate location decisions.

Cost Type	SFY 2026	SFY 2027	SFY 2028	SFY 2029	SFY 2030
	GR	GR	GR	GR	GR
Personal Income Tax	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Corporate Income Tax	\$0.7M	\$2.1M	\$3.3M	\$4.7M	\$5.2M
Total	\$0.7M	\$2.1M	\$3.3M	\$4.7M	\$5.2M

Option 1: Decouple from including NCTI income in state corporate taxation.

- *Advantages:* Would make Rhode Island more competitive in tax policy compared to states that include NCTI income in their tax base (which is most New England states). This would also be seen as a positive step by those who argue that NCTI income is foreign income that should not be included in state tax bases.
- *Disadvantages:* Would reduce Rhode Island revenues and negate one of the few positive revenue provisions in H.R. 1. Given the relatively small amount of revenue change from these provisions, it is unlikely that corporations are focused on Rhode Island’s NCTI income when considering tax and location planning.

Other Considerations: The Economic Progress Institute recommended not decoupling from this provision.

Miscellaneous Business Provisions (Section 70434)

Description: TCJA made film, television, and theater productions eligible for IRC Section 168 depreciation (also known as bonus depreciation). This only applies to productions before January 1, 2027. In addition, existing IRC Section 181, first adopted in 2004, allows taxpayers to deduct up to \$15 million of the costs of film, television, or theater productions, with a sunset after January 1, 2026.

Change: H.R. 1 adds sound recording productions as eligible productions under both IRC Sections 168 and 181, with no changes to the sunset dates for either statute.

Effective Date / Milestones: Productions commencing in or after TY 2025.

State Impacts (Direct and Indirect): Direct: These federal deductions are claimed by businesses on Schedule C, which flows into FTI on the corporate tax form, and by individuals on Schedule 1, which flows into federal AGI on the personal income tax form. Rhode Island previously decoupled from IRC Section 168 bonus depreciation, so that provision does not impact the state. However, the additional deductions claimed by sound recording productions would directly lower state revenues. This report assumes most of the impacted businesses would be pass-through entities, who pay tax under the personal income tax.

Indirect: The inclusion of sound recording productions in IRC Sections 168 and 181 may increase spending on qualifying productions.

Cost Type	SFY 2026	SFY 2027	SFY 2028	SFY 2029	SFY 2030
	GR	GR	GR	GR	GR
Personal Income Tax	\$(0.2M)	\$(0.2M)	\$(0.1M)	\$0.1M	\$0.2M
Corporate Income Tax	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Total	\$(0.2M)	\$(0.2M)	\$(0.1M)	\$0.1 M	\$0.2 M

Option 1: Decouple from IRC Section 181.

- *Advantages:* Would preserve state revenue and maintain TY 2025 add back for state purposes.

- *Disadvantages:* The actual revenue impact is de minimis, and it would require modifying multiple state tax forms, similar to modifications required for TY 2025.

Other Considerations: None.

Research and Development Expensing (Section 70302)

Description: Prior to TCJA, IRC Section 174 allowed full, up-front expensing of qualifying research and experimental expenses (although taxpayers could choose to amortize these expenses). These expenses include wages, supplies, rent, contracts, overhead, and depreciable equipment directly used in research and development (R&D) activities. TCJA required that, starting in 2022, these R&D expenses must be amortized over five years.

Change: H.R. 1 reestablishes the ability of businesses to fully expensing R&D costs starting in TY 2025 by creating IRC Section 174A, although only for domestic R&D spending (international R&D spending must be amortized over 15 years as specified in IRC Section 174). All taxpayers have the option to accelerate the expensing of R&D costs from TYs 2022, 2023, and 2024 over a one-year or two-year period beginning with TY 2025 (as opposed to the prior law five-year period). The law also allows smaller businesses (with gross receipts of \$31 million or less) to file amended federal returns to fully expense R&D costs retroactive to TY 2022.

Effective Date / Milestones: Retroactive to TY 2022 for some taxpayers, otherwise effective January 1, 2025.

State Impacts (Direct and Indirect): Direct: IRC Section 174 impacts federal taxable income for businesses. Given that Rhode Island starts with FTI on state business tax forms, increased R&D expensing will reduce state tax revenue. Rhode Island's FY 2026 Enacted Budget decoupled the state from any TY 2025 or earlier provisions in H.R. 1. This means that any taxpayers who file amended federal returns to claim additional R&D expenses for TYs 2022, 2023, and 2024 will have to add back those deductions when filing their state tax return. Likewise, taxpayers filing their TY 2025 returns and claiming R&D expensing over a period shorter than five years will have to add back those deductions and amortize them over five years on their state tax return. As Rhode Island is currently coupled for TY 2026, taxpayers filing their TY 2026 returns and claiming R&D expensing over a period shorter than five years federally would be able to accelerate future amortization into TY 2026 on their Rhode Island return, regardless of the taxpayer's TY 2025 treatment.

There is considerable uncertainty about the revenue loss estimates for this provision, which are based on estimates from the JCT shared down to represent Rhode Island's tax base. While all revenue estimates are impacted by taxpayer behavior, this provision is especially

susceptible to uncertainty given that it impacts multiple tax years retroactively and allows (but does not require) immediate R&D expensing.

In addition, Rhode Island’s current law decoupling from changes to TYs 2022 through 2025 R&D expensing will impact TY 2026 and beyond. For example, a company with \$10 million in R&D costs in 2025 will be able to deduct that \$10 million entirely in TY 2025 for federal tax purposes. However, they will then add that \$10 million back to their income for their TY 2025 Rhode Island tax return and claim a \$2 million deduction in TY 2025. Under the status quo, Rhode Island remains coupled to immediate R&D expensing for TYs 2026 and beyond. This means the example taxpayer could claim the remaining \$8 million of expenses in TY 2026.

This timing shift was not able to be explicitly adjusted for in the revenue loss estimate and creates downside risk to the estimates. This is because some, unknown, portion of the \$65.8 million of retroactive R&D deduction impact (from TYs 2022 through 2025) may be claimed starting in TY 2026. The revenue loss estimate, especially in the next few fiscal years, is more representative of a system where taxpayers must continue to amortize TY 2022 through TY 2025 R&D expenses over a five-year period (meaning the hypothetical company in the prior example is only able to claim \$2 million in deductions in TY 2026 and beyond). This would require an additional state law change.

Indirect: By giving more favorable tax treatment to R&D spending, H.R. 1 likely will stimulate some increase in that spending.

Cost Type	SFY 2026	SFY 2027	SFY 2028	SFY 2029	SFY 2030
	GR	GR	GR	GR	GR
Personal Income Tax	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Corporate Income Tax	\$(22.6M)	\$(22.6M)	\$(10.9M)	\$(8.0M)	\$(2.8M)
Total	\$(22.6M)	\$(22.6M)	\$(10.9M)	\$(8.0M)	\$(2.8M)

Option 1: Decouple from IRC Section 174A permanently and require taxpayers to amortize R&D expenses over five years.

- *Advantages*: Would preserve state revenue collections given that this provision has the largest near-term impact on state revenues as the result of H.R. 1.
- *Disadvantages*: Would add complexity for taxpayers and make tax administration more difficult; however, due the retroactive and TY 2025 impacts, stakeholders have

already adjusted to the change with forms and accounting. This would be like how Rhode Island already treats federal bonus depreciation (IRC Section 168), from which the state is decoupled. Permanently decoupling may disincentivize some businesses from making R&D investments in Rhode Island.

Option 2: Decouple from IRC Section 174A temporarily.

- *Advantages:* Would preserve state revenue in the short-term, while providing clarity to taxpayers about when Rhode Island will recouple to the federal tax code.
- *Disadvantages:* The longer to state is decoupled from IRC Section 174A, the greater the burden on taxpayers to track their R&D spending and correctly file their state taxes.

Option 3: Create an alternative state R&D expense amortization schedule.

- *Advantages:* Would provide taxpayers with some tax relief compared to the status quo and would lessen the revenue loss.
- *Disadvantages:* Would place a burden on taxpayers and the state to administer this alternative state system. The revenue impact of this option will be difficult to estimate.

Other Considerations: Rhode Island has an R&D tax credit, which is separate from R&D expensing. The state R&D tax credit is tied to federal definitions of qualifying R&D spending under the federal R&D tax credit (IRC Section 41). Federal taxpayers cannot receive a double tax benefit for the same spending under IRC Section 174 and IRC Section 41. The Rhode Island Society of CPAs noted that decoupling from expensing provisions in H.R. 1 will add complexity for taxpayers and the Division of Taxation, and represents a shift of the timing of tax liability rather than an ongoing reduction in revenue.

State and Local Tax Deduction Cap (Section 70120)

Description: Prior to TCJA, federal personal income taxpayers who itemize their deductions could deduct the full amount of state and local taxes (SALT). State and local taxes are property taxes and either income or sales taxes (taxpayers must chose to claim either income taxes or sales taxes). TCJA capped this deduction at \$10,000 per year (\$5,000 for married filing separately).

Change: H.R. 1 raises the SALT cap, which had been set to expire in 2026, to \$40,000 effective for TY 2025. This higher SALT cap phases out for taxpayers with income over \$500,000. For a taxpayer making \$600,000, the SALT cap is phased back down to \$10,000. The SALT cap is also indexed to inflation, before reverting to \$10,000 in 2030 and beyond.

Effective Date / Milestones: January 1, 2025.

State Impacts (Direct and Indirect): Direct: The SALT cap impacts itemized federal income tax deductions, which do not directly impact Rhode Island tax liability.

Indirect: Rhode Island adopted an elective pass-through entity tax (PTE) in 2019 in response to the SALT cap. This allows pass-through entities to pay state tax at the entity level, and pass through a lower amount of income (net of that tax) to their members. There is no SALT cap for business entities at the federal level. The entity members, when filing their state personal income tax return, add back the taxes paid by the entity and receive a corresponding credit for these taxes paid.

While this elective PTE tax was adopted as a revenue neutral (at the state level) policy, Rhode Island does see increased tax collections from this tax via two mechanisms. First, around 10% of PTE credits are never claimed by income tax filers, meaning the entities are making payments to the state that are not being offset by lower personal income tax payments. In addition, beginning in TY 2025 Rhode Island lowered the personal income tax credit amount from 100% to 90%. While PTE taxpayers were still better off on a combined state/federal basis by opting into the elective tax, they did see an increase in their state liability compared to earlier tax years.

A higher SALT cap means fewer taxpayers are likely to utilize Rhode Island’s elective PTE tax. This means the revenue from the two mechanisms described above will be diminished. Data indicates that around 25% of filers have between \$10,000 and \$40,000 of federal SALT deductions and are thus likely to abandon the Rhode Island elective PTE tax. These taxpayers represent around 14% of elective PTE payments. The revenue loss estimate below assumes a 14% reduction in PTE payments starting in July 2025.

Cost Type	SFY 2026	SFY 2027	SFY 2028	SFY 2029	SFY 2030
	GR	GR	GR	GR	GR
Personal Income Tax	\$(5.2M)	\$(5.2M)	\$(5.2M)	\$(5.2M)	\$(5.2M)
Corporate Income Tax	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Total	\$(5.2M)	\$(5.2M)	\$(5.2M)	\$(5.2M)	\$(5.2M)

Options: Because the SALT cap directly impacts only federal income tax filing, and because the Rhode Island PTE tax is optional, there are no state-level options.

Other Considerations: The Economic Progress Institute recommended decoupling from this provision. As noted above, the details of the federal SALT cap and the state-level elective PTE tax make decoupling difficult.

H.R. 1 New Provisions

Agriculture (Sections 70435, 70437)

Description: No current provisions exist.

Change: H.R. 1 allows banks to exclude from their gross income 25% of interest income derived from loans secured by rural or agricultural property (such as farms and ranches), aquacultural property, or fishing/seafood processing property. The new law also allows the income tax from capital gains on the sale of a farm to a qualified farmer to be paid in four installments.

Effective Date / Milestones: July 4, 2025 for TY 2025 and subsequent tax years.

State Impacts (Direct and Indirect): Direct: These provisions will lower interest income or reduce capital gains, which will impact AGI or FTI depending on the taxpayer. The totals below do not sum due to rounding.

Indirect: None.

Cost Type	SFY 2026	SFY 2027	SFY 2028	SFY 2029	SFY 2030
	GR	GR	GR	GR	GR
Personal Income Tax	\$(0.5M)	\$(2.0M)	\$(1.7M)	\$(0.8M)	\$(0.2M)
Corporate Income Tax	\$(0.0M)	\$(0.1M)	\$(0.1M)	\$(0.1M)	\$(0.2M)
Total	\$(0.6M)	\$(2.1M)	\$(1.9M)	\$(0.9M)	\$(0.4M)

Option 1: Decouple from one or both provisions.

- *Advantages:* Would preserve state revenue, although the revenue loss from the interest exclusion provision (70435) is less than \$100,000 in the next few years.
- *Disadvantages:* Would increase the burden of tax filing by requiring taxpayers to add back the capital gains or interest income that was excluded from their federal tax forms. Decoupling creates complexity in tax filing and administration.

Other Considerations: While the ability to exclude some interest income from agricultural property has an ongoing, although de minimis, impact, the change in capital gains realization from farm sales is a matter of a timing shift rather than an exclusion.

Charitable Deductions (Sections 70424, 70425, 70426, 70429)

Description: Currently, charitable contribution deductions are available to federal personal income taxpayers who itemize their deductions. Corporations are also able to claim charitable contribution deductions, limited to 10% of their taxable income, with contributions in excess of that limit eligible to be carried forward up to five years.

Change: H.R. 1 makes several changes to how charitable deductions are treated. It creates a new partial charitable deduction for taxpayers who do not itemize, as was allowed in 2020 and 2021. Starting in 2026, non-itemizing taxpayers can deduct up to \$1,000 (\$2,000 if filing jointly) of their charitable expenses. For taxpayers who itemize, they will now reduce their charitable contribution base by 0.5%, which creates a floor where the first 0.5% of contributions are not tax deductible. Similarly, the law creates a floor for corporate charitable deductions, measured as 1% of the business's taxable income. Contributions disallowed under this 1% floor may be carried forward, but only if the corporation exceeds the 10% upper limit for that year.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): Direct: Only the corporate charitable contribution floor directly impacts state tax revenues. Rhode Island business taxes are based on FTI, which is calculated net of charitable (and many other) deductions.

This report assumes the personal income tax charitable deduction for non-itemizers will be a below-the-line deduction, though the IRS has not finally determined this as of the writing of this report. While this was the case in 2021, the 2020 non-itemizer deduction was above the line. If charitable deductions are claimed above the line, there would be a reduction in state revenue of \$7 million annually. The deduction floor for itemizing taxpayers will not impact the state given that the state is not coupled to federal itemized deductions.

Indirect: This may increase charitable contributions in Rhode Island.

Cost Type	SFY 2026	SFY 2027	SFY 2028	SFY 2029	SFY 2030
	GR	GR	GR	GR	GR
Personal Income Tax	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Corporate Income Tax	\$0.9M	\$1.6M	\$1.8M	\$1.7M	\$1.6M
Total	\$0.9M	\$1.6M	\$1.8M	\$1.7M	\$1.6M

Option 1: Decouple from the federal corporate charitable deduction floor.

- *Advantages:* Restores the tax benefits associated with corporate charitable deductions at the state level and may incentivize more contributions.
- *Disadvantages:* Reduces state revenue.

Option 2: Offer a state-level charitable deduction.

- *Advantages:* May incentivize additional charitable contributions in the state.
- *Disadvantages:* Would reduce state revenues. Such a change would also contravene 2010 personal income tax reforms in Rhode Island, which sought to limit credits and deductions in order to lower tax rates.

Other Considerations: None.

Child Care and Adoption (Sections 70401, 70402, 70403, 70404, 70405)

Description: Currently, businesses can claim an employer-provided childcare credit of up to \$150,000 per year on up to 25% of childcare expenses. Also, individuals can exclude \$5,000 per year (\$2,500 for married filing separately) from taxable income for use in a dependent care spending account. Current law also allows a federal child and dependent care tax credit against childcare expenses up to \$3,000 per child (capped at \$6,000). The credit rate varies by the taxpayer’s AGI, with a maximum credit rate of 35% that declines, as AGI increases, to 20% for taxpayers with AGI above \$43,000.

In addition, there is an adoption tax credit for qualified adoption expenses of up to \$16,810 for TY 2024, which phases out between \$252,150 and \$292,150 of income, indexed to inflation. The adoption credit is non-refundable but can be carried forward for up to five years. If a child is determined to have “special needs” by a state government, the adoptive family can claim the full adoption tax credit even if they did not have qualifying expenses.

Change: H.R. 1 increases the maximum employer-provided childcare credit from \$150,000 to \$500,000 (\$600,000 for small businesses) and increases the percentage of childcare expenses that can be claimed from 25% to 40% (50% for small businesses). The new law increases the dependent care spending account amount from \$5,000 to \$7,500. In addition, the law enhances the child and dependent care tax credit rate from 35% to 50%, which phases down to 35% for taxpayers with an AGI between \$43,000 and \$75,000, and then phases down to 20% for taxpayers with an AGI between \$75,000 to \$105,000 (these AGI amounts are doubled for joint filers).

Also, H.R. 1 makes the adoption credit partially refundable up to \$5,000 and allows tribal governments to have the same ability to determine if a child has special needs under the adoption tax credit program.

Effective Date / Milestones: Changes related to the adoption credit are effective January 1, 2025, while the other changes are effective January 1, 2026.

State Impacts (Direct and Indirect): Direct: The employer-provided childcare credit and adoption credit are federal credits that do not appear on the state tax return. Dependent care accounts are excluded from income paid by an employer, and thus a higher cap on those accounts will lower federal AGI. This flows down to the state personal income tax return and lowers state revenue. Also, Rhode Island offers a state-level child and dependent care credit which is 25% of the federal credit. A more generous federal child and dependent care credit will increase the amount of credit claimed by state taxpayers, lowering revenues.

Indirect: None.

Cost Type	SFY 2026	SFY 2027	SFY 2028	SFY 2029	SFY 2030
	GR	GR	GR	GR	GR
Personal Income Tax	\$(0.5M)	\$(1.4M)	\$(1.6M)	\$(1.5M)	\$(1.6M)
Corporate Income Tax	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Total	\$(0.5M)	\$(1.4M)	\$(1.6M)	\$(1.5M)	\$(1.6M)

Option 1: Require state taxpayers to add back any dependent care account income exclusion above the current \$5,000 amount.

- *Advantages:* Would preserve state revenue.

- *Disadvantages:* Would increase tax filing complexity while only preserving less than \$500,000 of state revenue per year.

Option 2: Require state taxpayers to calculate their child and dependent care credit under the pre-H.R. 1 formula.

- *Advantages:* Would preserve state revenue.
- *Disadvantages:* Would increase tax filing complexity while only preserving less than \$1 million of state revenue per year.

Other Considerations: None.

Energy Efficiency (Sections 70505, 70506, 70507, 70508)

Description: Under current law, there is a tax credit of 30% of qualified energy efficiency improvements (capped at \$1,200 generally and \$2,000 for heat pumps and biomass stoves). There is also a 30% credit, which declines to 22% by 2034, for residential solar, fuel cell, wind, geothermal, and battery storage property. There is another credit for new energy efficiency homes that meet Energy Star standards of between \$1,000 and \$5,000. Finally, there is a commercial energy efficiency deduction for certain items, including lighting, HVAC, and hot water systems, which ranges from \$0.50 to \$5 per square foot based on the size of the energy reductions and the adherence to prevailing wage requirements.

Change: H.R. 1 terminates these credits and deduction.

Effective Date / Milestones: Both the energy efficient home improvement credit (Section 70505) and residential clean energy credit (70506) are terminated as to projects placed in service after 2025. The energy efficient commercial projects deduction (70507) is terminated for properties for which construction begins after June 30, 2026. Finally, the new energy efficient home credit (70508) is terminated for homes acquired after June 30, 2026.

State Impacts (Direct and Indirect): Direct: Only the deduction for energy efficiency measures in commercial buildings impacts state revenue. The deduction lowers FTI, so the termination of the deduction increases FTI and increases state revenues. This impact is less than \$20,000 per year in revenue, which is why the table below shows \$0. The other provisions are federal tax credits, and there are no direct state-level impacts.

Indirect: This may decrease the usage of residential and commercial energy efficiency measures.

Cost Type	SFY 2026	SFY 2027	SFY 2028	SFY 2029	SFY 2030
	GR	GR	GR	GR	GR
Personal Income Tax	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Corporate Income Tax	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Total	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M

Option: Offer state energy efficiency credits.

- *Advantages:* Would replace the federal credit and maintain the incentive to undertake these improvements with the concomitant benefits of energy efficiency measures.
- *Disadvantages:* Would cause an indeterminate state revenue loss. Such a change would also contravene 2010 personal income tax reforms in Rhode Island, which sought to limit credits and deductions in order to lower tax rates.

Other Considerations: None.

Energy Production (Sections 70509, 70510, 70511, 70512, 70513, 70514, 70515, 70521)

Description: Current law also allows a special five-year depreciation period for certain clean energy production facilities, such as electric generation facilities. This is in lieu of standard depreciation schedules, typically over 39 years for non-residential real property.

There are also numerous federal tax credits for clean energy production that are impacted by H.R. 1:

- Credit for nuclear power plants of 0.3 cents to 1.5 cents per kilowatt-hour,
- Credit for clean hydrogen of a maximum of 60 cents per kilogram, adjusted for the greenhouse gas emissions of the facility,
- Credit for power facilities with no greenhouse gas emissions of 0.3 cents to 1.5 cents per kilowatt-hour,
- Credit for qualified investments in electricity facility or energy storage technology of 6% to 30%,
- Credit for the U.S. production of some clean energy components, such as solar and wind energy components, with the credit amount varying by component,
- Credit worth 30% of the investment in advanced energy projects, and

- Credit for the production of low-emission fuel of 20-cents (nonaviation fuel) to 35-cents (aviation fuel) per gallon.

Change: H.R. 1 represents a policy change and makes various changes as follows:

- Terminates the shorter depreciation period for clean energy facilities placed in service after July 4, 2025,
- Restricts nuclear power plant credits for foreign entities or using fuel from certain countries,
- Terminates hydrogen production credits after 2025,
- Phases out clean energy production credits by 2028 for wind and solar and 2036 for hydrogen, nuclear, and geothermal. Credits are also denied for residential wind and solar leasing,
- Phases out clean electricity investment credits by 2028 for wind and solar and 2036 for hydrogen, nuclear, and geothermal,
- Phases out credit for manufacturing clean energy components after 2027 for wind components and after 2034 for critical mineral production,
- Eliminates issuance of abandoned advanced energy project credits to a new taxpayer, and
- Extends the clean fuel production credit from 2028 to 2031.

Effective Date / Milestones: Various.

State Impacts (Direct and Indirect): Direct: Only the shorter depreciation period for clean energy facilities directly impacts Rhode Island tax filing. Depreciation deductions are claimed before the calculation of federal AGI and FTI, so a longer depreciation period will lower these annual deductions and increase taxable income. This impact is de minimis and will lessen over time.

Indirect: H.R. 1 will likely reduce clean energy investment across the country, including in Rhode Island.

Cost Type	SFY 2026	SFY 2027	SFY 2028	SFY 2029	SFY 2030
	GR	GR	GR	GR	GR
Personal Income Tax	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Corporate Income Tax	\$0.0M	\$0.1M	\$0.1M	\$0.0M	\$0.0M
Total	\$0.0M	\$0.1M	\$0.1M	\$0.0M	\$0.0M

Option 1: Allow shorter depreciation for clean energy facilities.

- *Advantages:* Would preserve the pre-H.R. 1 tax benefit for these facilities.
- *Disadvantages:* The small revenue gain estimated for this provision indicates the tax benefit would be correspondingly small and unlikely to create meaningful incentives.

Option 2: Create state-level clean energy production incentives.

- *Advantages:* Would encourage additional clean energy investment in Rhode Island.
- *Disadvantages:* Resources would be required to implement such incentives, and many of the federal tax credits are unlikely to be utilized in Rhode Island (for example, the nuclear power plant tax credit). Such a change would also contravene 2010 personal income tax reforms in Rhode Island, which sought to limit credits and deductions in order to lower tax rates.

Other Considerations: The Rhode Island Act on Climate sets enforcement climate emission reduction mandates, with a goal of net-zero emissions by 2050.

Housing (Section 70430)

Description: Under current law, residential construction contracts (such as for an apartment) had to use percentage-of-completion method (PCM) accounting to recognize revenues. Residential home construction is exempt from this requirement.

Change: H.R. 1 exempts residential construction from PCM accounting.

Effective Date / Milestones: Applies to contracts entered into in Tax Year 2026 and subsequent tax years.

State Impacts (Direct and Indirect): Direct: This provision allows delayed recognition of revenue until a project is completed, thus lowering income that flows into AGI and FTI. As a

result, state revenue will be reduced, although this largely represents a timing shift rather than a permanent reduction.

Indirect: None.

Cost Type	SFY 2026	SFY 2027	SFY 2028	SFY 2029	SFY 2030
	GR	GR	GR	GR	GR
Personal Income Tax	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Corporate Income Tax	\$(0.4M)	\$(0.5M)	\$(0.3M)	\$(0.2M)	\$(0.1M)
Total	\$(0.4M)	\$(0.5M)	\$(0.3M)	\$(0.2M)	\$(0.1M)

Option 1: Require residential builders to use PCM for state tax purposes.

- *Advantages:* Would preserve state revenue.
- *Disadvantages:* Would add complexity for taxpayers, especially for small- and medium-sized building firms.

Other Considerations: None.

Miscellaneous Healthcare Provisions (71306, 71307, 71308)

Description: H.R. 1 contains several miscellaneous healthcare-related provisions, some of which have a direct state revenue impact.

Change: These miscellaneous provisions include:

- Allowance for high-deductible health plans (HDHPs) to cover telehealth services on a first-dollar basis (which would otherwise exclude them from qualifying as a HDHP),
- Expansion of eligibility for health savings accounts (HSAs) to bronze and catastrophic health plans on the Affordable Care Act exchanges, and
- Allowance for direct primary care arrangements, in which patients pay a monthly membership fee for primary care services, to participate in an HSA and pay membership fees out of the HSA.

Effective Date / Milestones: Various.

State Impacts (Direct and Indirect): Direct: These provisions are expected to increase the use of HSAs. HSA contributions are an above-the-line deduction from AGI, and increased use of HSAs will lead to an increase deductions, lower AGI, and lower state tax revenue.

Indirect: None.

Cost Type	SFY 2026	SFY 2027	SFY 2028	SFY 2029	SFY 2030
	GR	GR	GR	GR	GR
Personal Income Tax	\$(0.2M)	\$(0.6M)	\$(0.9M)	\$(1.0M)	\$(1.1M)
Corporate Income Tax	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Total	\$(0.2M)	\$(0.6M)	\$(0.9M)	\$(1.0M)	\$(1.1M)

Option 1: Require HSA deductions taken under the H.R. 1 provisions to be added back to Rhode Island AGI.

- *Advantages:* Would preserve some state revenue, although the amount is modest.
- *Disadvantages:* Distinguishing the HSA contributions that were triggered by H.R. 1 from other HSA contributions would be extremely difficult for taxpayers to determine and for the Division of Taxation to audit.

Other Considerations: None.

Provider Taxes (Section 71115)

Description: Provider taxes are those imposed on health providers and health insurance companies. Rhode Island has three provider taxes: a hospital licensing fee (tiered rate structure), a nursing home provider tax (5.5%), and a health insurance gross premiums tax (2%). Health insurance companies are also liable for Children’s Health Account Assessment (R.I. Gen. Laws § 42-7.4-3; § 42-12-29; § 42-7.4-2), Child Immunization Assessment (R.I. Gen. Laws § 42-7.4-3; § 23-1-46; § 42-7.4-2), Adult Immunization Assessment (R.I. Gen. Laws § 42-7.4-3; §23-1-46; § 42-7.4-2), and the newly enacted Primary Care Assessment (R.I. Gen. Laws § 42-7.4-3; § 42-7.4-2). Federal law prior to H.R. 1 capped the rate of these taxes at 6% to avoid states levying excessive provider taxes as a mechanism to draw down federal Medicaid funds.

Change: For states that expanded Medicaid coverage under the Affordable Care Act, H.R. 1 freezes provider taxes at their current rates and prohibits new provider taxes. It then requires

rates to be lowered from 6% to 5.5% in FFY 2028, 5% in FFY 2029, 4.5% in FFY 2030, 4% in FFY 2031, and 3.5% in FFY 2032. The law exempts nursing home provider taxes from this reduction.

Effective Date / Milestones: Fiscal years beginning on or after October 1, 2026.

State Impacts (Direct and Indirect): These impacts, and the associated policy options, are discussed in the health and human services H.R. 1 report.

Small Business Stock Gains (Section 70431)

Description: Current law (IRC Section 1202) encourages investment in qualified small businesses by excluding some or all of the gain from stock in those businesses. Eligible firms typically belong to the technology, retail, wholesale, and manufacturing sectors. Ineligible sectors include hospitality, personal services, financials, farming, and mining. Generally, stock held for five years is eligible for a 100% exclusion of the gains.

Change: H.R. 1 creates a tiered gain exclusion: 50% for stock held for three years, 75% for stock held for four years, and 100% for stock held for five years or more. The bill also increases the per-issuer dollar cap on stock from \$10 million to \$15 million, and the total assets of the qualifying business are now allowed to be up to \$75 million (increased from \$50 million).

Effective Date / Milestones: July 4, 2025.

State Impacts (Direct and Indirect): Direct: Gains excluded under this provision are never recognized as AGI and thus lower the tax liability of impacted taxpayers. This will reduce Rhode Island tax revenue, although the impact is delayed until FY 2029 given the requirement to hold the stock for at least three years. The impact does grow in the outyears, reaching a revenue loss of \$3 million in FY 2031 and beyond.

Indirect: This may encourage more investment in qualifying small businesses in Rhode Island.

Cost Type	SFY 2026	SFY 2027	SFY 2028	SFY 2029	SFY 2030
	GR	GR	GR	GR	GR
Personal Income Tax	\$0.0M	\$0.1M	\$0.0M	\$(0.1M)	\$(0.9M)
Corporate Income Tax	\$0.0M	\$0.0M	\$0.0M	\$0.0M	\$0.0M
Total	\$0.0M	\$0.1M	\$0.0M	\$(0.1M)	\$(0.9M)

Option 1: Require personal income taxpayers to add back the excluded gains from stock held for three or four years on their Rhode Island tax form. This would decouple the state from the amendments made to IRC Section 1202 in H.R. 1.

- *Advantages:* Would preserve state revenue.
- *Disadvantages:* Would create complexity for taxpayers. This would represent a partial decoupling from IRC Section 1202, and require taxpayers to add back some but not all excluded gains under that law.

Option 2: Require personal income taxpayers to add back the excluded gains on their Rhode Island tax form. This would fully decouple the state from IRC Section 1202.

- *Advantages:* Would increase state revenue by an additional, unknown amount compared to Option 1.
- *Disadvantages:* Would create complexity for taxpayers. However, taxpayers currently must report the excluded gain from this provision on IRS Form 8949 and Schedule D. State law could be amended to require them to add back that amount to their state taxes.

Other Considerations: The Economic Progress Institute recommended fully decoupling from IRC Section 1202.

Provisions Without a State Revenue Impact

TCJA Extensions

ABLE Accounts (Sections 70115, 70116, 70117)

Description: ABLE (Achieving a Better Life Experience) savings accounts are available to individuals with disabilities. They allow those individuals to contribute after-tax dollars to an account that offers tax-free earnings, tax-free withdrawals for qualifying expenses, and is not counted towards means testing for public benefits. TCJA made three changes to these accounts: allows additional contributions for individuals who work, allows rollovers from 529 plans to ABLE accounts, and allows ABLE contributions to count toward the federal Saver's Credit (which is available to low- and moderate-income households for retirement contributions to IRAs and employer retirement accounts).

Change: H.R.1 makes these TCJA provisions, which expire on December 31, 2025, permanent.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): **Direct**: These provisions are extending TCJA provisions already in effect, and as a result, there is no marginal change in state tax revenue. There is also no direct impact on AGI because these are after-tax contributions, and the Saver's Credit is a below-the-line federal credit.

Indirect: These provisions prevent some income (ABLE account gains and 529 plan rollovers) from being recognized as income, and as a result, they may reduce AGI. Since these provisions are already in effect, there is no marginal change in state tax revenue.

Option 1: Require taxpayers to add back ABLE account gains or rollovers from 529 plans to ABLE accounts.

- *Advantages*: Would result in an indeterminate increase in state revenue.
- *Disadvantages*: Would represent a shift from current policy and require implementation (including form changes) by the Division of Taxation. Further, the impact would disadvantage people with disabilities. The revenue gain from this option is indeterminate but likely small.

Other Considerations: None.

Alternative Minimum Tax (Section 70107)

Description: The alternative minimum tax (AMT) is a federal personal income tax that applies to some taxpayers who are able to claim a high level of deductions. This ensures those taxpayers pay a tax rate of at least 26-28%. Taxpayers paying the AMT are able to claim an exemption to shield some of their income from the tax, which phases out at higher income levels. TCJA increased the exemption from \$70,900 to \$90,400 for single filers and \$110,400 to \$140,700 for joint filers. The income level where the exemption begins to phase out was increased from \$157,700 to \$500,000 for single filers and \$210,300 to \$1 million for joint filers.

Change: H.R. 1 permanently extends these higher exemption amounts and phaseout thresholds, which were set to expire on December 31, 2025. The higher exemption thresholds under TCJA had been indexed to inflation, meaning the \$500,000/\$1,000,000 thresholds were set to rise to \$642,950/\$1,285,950 in TY 2026. H.R. 1 reverted these thresholds to \$500,000/\$1,000,000, indexed to inflation thereafter. This means that, compared to a current policy baseline, AMT taxpayers faced slightly higher tax liability.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): Direct: This is a federal tax, so there are no direct state impacts.

Indirect: The state's higher-income taxpayers will have more after-tax income compared to a current law baseline (although less compared to a current policy baseline).

Options: This is a federal tax and there are no state-level options.

Other Considerations: None.

Child Care and Adoption Credits (Section 70304)

Description: TCJA created a paid family and medical leave (PFML) tax credit. The tax credit is for businesses who offer at least two weeks of PFML and is equal to between 12.5% and 25% of the wages paid to employees on PFML.

Change: H.R. 1 permanently extends the PFML tax credit, which was set to expire on December 31, 2025. It also modifies the credit by allowing employers to claim the credit on a percentage of insurance policies covering PFML, as an alternative to basing it on wages paid to employees actually on leave. The law also lowers the minimum employee work requirement from one year to six months, requiring employees to be working 20 hours per week. Further, a credit is now allowed in states that already require PFML plans, for any benefits offered above the required amount.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): Direct: This is a federal tax credit, so no direct state impacts.

Indirect: Rhode Island law already requires earned sick and safe leave of 40 hours for full-time employees. This H.R. 1 provision may incentivize employers to offer plans that go beyond the state statutory minimums.

Options: This is a federal tax credit and there are no state-level options.

Other Considerations: None

Child Tax Credits (Section 70104)

Description: TCJA enhanced the federal child tax credit (CTC), raising the amount from \$1,000 to \$2,000. It also increased the income level at which the credit begins to phase out from \$75,000 for single filers and \$110,000 for joint filers, to \$200,000 for single filers and \$400,000 for joint filers. It also created a nonrefundable credit of \$500 for non-child dependents. Finally, it modified the refundable portion of the CTC (known as the additional child tax credit or ACTC) by lowering the income level above which the refundable credit starts to accrue. Previously the ACTC was calculated as 15% of earnings above \$3,000 (capped at the CTC amount of \$1,000). Under TCJA, that changed to 15% of earnings above \$2,500 (capped at \$1,400, with that cap indexed to inflation).

Change: H.R. 1 makes the higher CTC amount and the non-child dependent credit, which had been scheduled to expire after December 31, 2025, permanent. The law increases the CTC from \$2,000 to \$2,200 per child and indexes the non-child credit to inflation. Finally, it makes permanent the changes to the ACTC.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): Direct: This is a federal tax credit, so there are no direct state impacts.

Indirect: This will increase after-tax income for Rhode Island families, both on a current law and a current policy baseline.

Options: This is a federal tax credit and there are no state-level options.

Other Considerations: Rhode Island does not offer a state child tax credit.

Deductions (Sections 70108, 70109, 70110, 70111, 70112, 70113, 70305)

Description: TCJA made numerous changes to which personal income tax deductions were allowed for federal tax purposes. These include:

- Limiting the mortgage debt eligible for the mortgage interest deduction from \$1 million to \$750,000, and ending a deduction for home equity line of credit interest,
- Limiting the itemized deduction for uncompensated personal casualty losses to those resulting from a federally declared disaster,
- Terminating miscellaneous itemized deductions, such as investment expenses and legal fees,
- Terminating the “Pease limitation” which phased out itemized deductions over certain AGI thresholds,
- Eliminating the qualified bicycle commuting reimbursement exclusion,
- Eliminating the exclusion from income of qualified moving expenses reimbursement and the deduction for moving expenses except members of the Armed Forces, and
- Limiting the deduction for business meals to 50%.

Change: H.R. 1 makes these provisions, which were set to expire on December 31, 2025, permanent, with some modifications:

- Allowing mortgage insurance premiums to qualify for the mortgage interest deduction,
- Allowing a deduction for some educator expenses, which were formerly a disallowed miscellaneous itemized deduction,
- Creating a new itemized deduction limitation for taxpayers in the top tax bracket so that each dollar of itemized deduction can only have \$0.35 in tax benefit,
- Allowing a moving expenses deduction for members of the Intelligence Community, and
- Disallowing any deduction for business meals provided by the employer.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): Direct: There is no direct impact from these changes because (a) they impact below-the-line itemized deductions and/or (b) they represent an extension of current policy, meaning there are no marginal state revenue impacts.

Indirect: These provisions will change after-tax income for some taxpayers. For example, teachers will see a decreased tax liability due to the ability to deduct expenses, while some taxpayers in the top federal tax bracket will see an increase in tax liability due to the itemized deduction limitation.

Option 1: Offer state-level deductions for items that are not allowed federally, such as moving expenses, bicycle commuter reimbursement, or business meals.

- *Advantages*: May incentivize some individual or business activity, although any impacts are likely to be small.
- *Disadvantages*: Would result in an indeterminate decrease in state revenue. Such a change would also contravene 2010 personal income tax reforms in Rhode Island, which sought to limit credits and deductions in order to lower tax rates.

Estate Tax (Section 70106)

Description: TCJA doubled the estate and lifetime gift tax exemption (which is indexed to inflation). In 2025, that exemption was \$13,990,000 per person.

Change: H.R. 1 makes the larger estate and gift tax exemption, which was set to expire on December 31, 2025, permanent. The new law also raises the exemption amount to \$15 million.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): **Direct**: This is a federal tax, so there are no direct state impacts. Rhode Island's estate tax is tied to a 2001 version of the federal tax code.

Indirect: On both a current law and a current policy baseline, H.R. 1 decreases the tax liability of estates located in Rhode Island.

Option 1: Couple to the federal estate tax exemption.

- *Advantages*: Would encourage the location of assets in Rhode Island.
- *Disadvantages*: Would cause a substantial revenue loss for the state, and only benefit estates that are over Rhode Island's current estate tax exemption of \$1.8 million. Also, because Rhode Island is tied to the federal estate tax as it existed in 2001, there may be other unintended consequences of coupling the state to a newer version of federal law.

Other Considerations: As of 2025, Rhode Island's estate tax exemption is \$1.8 million, while the Massachusetts' estate tax exemption is \$2 million, and Connecticut is tied to the federal exemption.

Exemptions (Section 70103)

Description: TCJA eliminated federal personal exemptions, which were deductions that a personal income taxpayer could take for themselves, their spouse, and their dependents.

This was a deduction of \$5,300 per person. In place of these exemptions, TCJA created a higher standard deduction and a more generous child tax credit.

Change: H.R. 1 makes permanent the elimination of personal exemptions, which had been set to expire after December 31, 2025.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): Direct: Personal exemptions are taken after the calculation of federal AGI and thus do not impact state tax revenues.

Indirect: By themselves the elimination of personal exemptions increases federal tax liability of many Rhode Islanders, although that impact was combined with other aspects of TCJA. There is no marginal impact on a current policy baseline.

Option 1: Couple to the post-TCJA federal treatment of exemptions (Rhode Island law is coupled to pre-TCJA exemption amounts).

- *Advantages:* Would increase state revenue and simplify tax filing.
- *Disadvantages:* Federally, the enhanced child tax credit took the place of personal exemptions for many filers. If Rhode Island did not offer a similar child tax credit, many taxpayers would face a higher tax liability.

Other Considerations: Rhode Island offers personal exemptions for personal income tax filers, which is \$5,100 for TY 2025. These exemptions phase out between \$254,250 to \$283,250 of income for TY 2025.

Limitation on Excess Business Losses (Section 70601)

Description: TCJA limited noncorporate taxpayers from claiming excess business losses (EBL) over a certain amount. For 2025, those amounts are \$626,000 for married couples filing jointly and \$313,000 for all other taxpayers. These amounts are indexed to inflation. Losses above those amounts become net operating losses that can be carried forward to future years. The EBL provision was set to expire on December 31, 2025.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act delayed the implementation of the EBL provision from 2018 to 2020. The American Rescue Plan Act (ARPA) delayed it further to 2021, and also extended the sunset of the provision from the end of 2025 to the end of 2026. The Inflation Reduction Act (IRA) extended the provision through 2028.

Change: H.R. 1 makes the EBL provision permanent.

Effective Date / Milestones: January 1, 2029.

State Impacts (Direct and Indirect): Direct: The adjustment to add back EBLs is reported on IRS Schedule 1, which factors into the calculation of federal AGI. This provision increases AGI for affected taxpayers. However, because this provision is already in effect, there is no marginal change to state tax revenue.

Indirect: This provision lowers after-tax income for some noncorporate businesses, although there is no marginal change given the policy is already in effect.

Option 1: Allow Rhode Island taxpayers a decreasing modification for any losses excluded under the federal EBL limitation.

- *Advantages:* Would increase after-tax income for some pass-through entities and make the Rhode Island tax code more favorable to these businesses than neighboring states.
- *Disadvantages:* Would lead to a substantial revenue loss for the state. This would only benefit pass-through entities, which received substantial tax benefits under TCJA and H.R. 1.

Other Considerations: Rhode Island extended the carryforward for net operating losses from five to 20 years for any losses generated after January 1, 2025.

Low Income Housing Tax Credit (Section 70422)

Description: A federal taxpayer may claim the low-income housing tax credit annually over a 10-year period for the costs of building or rehabilitating rental housing occupied by low-income tenants. There is a per capita allocation by state of federal low-income housing tax credits (LIHTCs). The Consolidated Appropriations Act (CAA) of 2018 increased this allocation by 12.5%.

There are also LIHTCs offered to projects that are financed with at least 50% of tax-exempt bonds. These projects are not subject to the state allocation limitations for credits.

Change: H.R. 1 permanently increases the allocation of LIHTCs by 12% starting in 2026. The bill also changes the percentage of a project needed to be financed with tax-exempt bonds from 50% to 25% to qualify for that pathway of credits.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): Direct: This is a federal tax credit, so there are no direct state impacts.

Indirect: This will expand the number of projects that can be offered LIHTCs. Rhode Island has its own state-level LIHTC, available to projects awarded federal LIHTCs. This program is capped at \$30 million per year and competitively awarded by the Department of Housing.

Options: This is a federal tax credit and there are no state-level options.

Other Considerations: None.

Federal Income Tax Rates (Section 70101)

Description: TCJA lowered federal income tax brackets as shown below.

Bracket	If TCJA Expired	H.R. 1
1	10.0%	10.0%
2	15.0%	12.0%
3	25.0%	22.0%
4	28.0%	24.0%
5	33.0%	32.0%
6	35.0%	35.0%
7	39.6%	37.0%

Change: H.R. 1 makes these tax brackets, which were set to expire after December 31, 2025, permanent. The provision also adds an additional year of inflation adjustment to the 10%, 12%, and 22% brackets.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): Direct: These are federal tax rates, so there are no direct state impacts.

Indirect: Rhode Islanders who fall in these income tax brackets will have more after-tax income (although only when viewing the provision from a current law baseline).

Options: These are federal tax rates and there are no state-level options.

Other Considerations: None.

Miscellaneous (Sections 70118, 70423, 70438)

Description: Several miscellaneous provisions in TCJA are impacted by H.R. 1; those provisions are:

- Designation of the Sinai Peninsula as a qualified hazardous duty area, which allows for the exclusion of income earned while an active-duty military member is serving in that area,

- The New Markets Tax Credit, which allows investors in low-income communities to claim a credit (equal to 39% of their investment, spread over seven years), and
- The ability of non-itemizers to claim disaster-related personal casualty losses (such as the loss of property) for disasters that ended no later than January 11, 2025.

Change: H.R. 1 makes the Sinai Peninsula and New Markets Tax Credit provisions, which were set to expire after December 31, 2025, permanent. The bill extends the personal casualty loss provision to disasters that ended 30 days after the bill's enactment (which was July 4, 2025).

Effective Date / Milestones: January 1, 2025.

State Impacts (Direct and Indirect): Direct: The Sinai Peninsula provision is an income exclusion, which means it would lower federal AGI for the impacted taxpayers. However, it does not represent a change in the status quo and there are no marginal changes to state revenues. The New Markets Tax Credit is a federal credit that does not have a direct state impact. The changes to the personal casualty loss provisions are a below-the-line modification that do not impact federal AGI.

Indirect: The New Markets Tax Credit may incentivize more investment in certain communities, although there is no marginal change in behavior given this is an extension of an existing provision.

Option 1: Rhode Island could piggyback on the New Markets Tax Credit and offer a state tax credit that is a percentage of the federal credit.

- *Advantages:* May incentivize further investment in low-income communities.
- *Disadvantages:* Would reduce state revenue by an indeterminate amount. Given that federal tax liability generally exceeds state tax liability, the change in incentives will likely be modest. It would also contravene 2010 personal income tax reforms in Rhode Island, which sought to limit credits and deductions in order to lower tax rates.

Other Considerations: None.

Opportunity Zones (Section 70421)

Description: TCJA created the opportunity zone (OZ) program. Under this program, investments in eligible census tracts can receive more favorable capital gains tax treatment. Capital gains reinvested in the OZ can defer capital gains taxation. Investments held for five to seven years see a 10-15% reduction in the taxable gain, while investments held at least ten years see a permanent exclusion of future gains.

Eligible census tracts to become an OZ must have a poverty rate of at least 10% or a median family income that does not exceed 80% of the area median income. Twenty-five percent of these eligible census tract could be selected by a state's governor to become an OZ (with a minimum number of 25 OZs per state).

Change: H.R. 1 creates a permanent OZ program with 10-year designations starting in 2027. The definition of eligible communities was narrowed to census tracts with at least a 20% poverty rate or 70% of the area median income. There is also a new rule stated that an eligible census tract cannot have a median family income of 125% of the area median family income.

H.R. 1 also provides benefits to a taxpayer's investment in an OZ for less than seven years. For these investments, they receive a 1% to 3% step-up in basis of the investment, depending on the length of the investment. This step up in basis increases the initial value of the investment, against which capital gains are measured (thus lowering the taxable capital gains).

Finally, H.R. 1 creates additional rules and tax benefits to encourage investment in rural areas.

Effective Date / Milestones: January 1, 2027.

State Impacts (Direct and Indirect): Direct: Rhode Island taxes capital gains as ordinary income. OZ investment defers capital gains to future years. There may be increased realization of gains in the short term as investors realize gains in current OZs to move them into the new OZs. There will then be a revenue loss as these gains are deferred, although this is mainly a shift in timing rather than a permanent loss of state revenue.

The OZ program already exists under current law, and H.R. 1 only modifies the qualifications to be an OZ rather than change the number of zones or tax treatment of investments in those zones. Therefore, this report assumes no marginal change in state revenue from the extension of the OZ program.

Indirect: Because Rhode Island will be able to designate a new round of OZs in 2027, there will be continued investment in these areas.

Option 1: Decouple from the federal treatment of OZ gains.

- *Advantages:* Would enhance state revenue, potentially around \$5 to \$6 million per year on average starting in FY 2027.
- *Disadvantages:* Would discourage investment in Rhode Island OZs, and complicate tax filing for those taxpayers who do choose to invest.

Other Considerations: The Economic Progress Institute recommended decoupling from this provision.

Standard Deduction (Section 70102)

Description: TCJA increased the basic standard deduction. For tax year 2025, the amount of the basic standard deduction is \$15,000 for a single filer, \$22,500 for a head of household, and \$30,000 for married individuals filing jointly. Under present law, the increased standard deduction will expire after December 31, 2025, and the amount of the basic standard deduction for taxable year 2026 will be \$8,300 for a single filer, \$12,150 for a head of household, and \$16,600 for married individuals filing jointly.

Change: H.R. 1 makes the doubled standard deduction permanent. H.R.1 also increases the standard deduction slightly to \$15,750 for single filers and \$31,500 for joint filers in 2025, indexed to inflation annually moving forward.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): Direct: The standard deduction is taken after the computation of federal AGI, and thus has no direct impact on state revenues.

Indirect: The increased standard deduction has caused, and will continue to cause, many taxpayers to forgo itemizing deductions for federal tax purposes. This is because the increased standard deduction is more advantageous for these taxpayers, leading to more after-tax income.

Option 1: Couple to the federal standard deduction.

- *Advantages:* Would increase after-tax income for many Rhode Island taxpayers.
- *Disadvantages:* Would significantly decrease state revenue collections and expose state to any future changes to the federal standard deduction.

Other Considerations: Rhode Island's standard deduction for 2024 is \$10,550 for single filers and \$21,150 for married joint filers. This deduction is indexed to inflation.

Qualified Business Income Deduction (Section 70105)

Description: TCJA created a new deduction for some noncorporate taxpayers equal to 20% of qualified business income (QBI) from a partnership, S corporation, or sole proprietorship (as well as 20% of some investment income). This was done to lower the effective tax rate for these pass-through businesses closer to the 21% corporate tax rate implemented by TCJA (which was lowered from 35%). This deduction is limited for taxpayers above a threshold amount; for tax year 2025: \$394,600 for married taxpayers filing jointly and \$197,300 for all

other taxpayers. These limits are based on the wages/capital investment of the business and the type of business and phase in for taxpayers over the threshold amounts. The limits are fully phased in when income is \$50,000 (single filers) or \$100,000 (joint filers) over the threshold.

Change: H.R. 1 makes the QBI deduction, which had been set to expire after December 31, 2025, permanent. It creates a new minimum deduction of \$400 and expands the phase-out window from \$50,000/\$100,000 to \$75,000/\$150,000.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): Direct: The QBI deduction is taken after the calculation of federal AGI on IRS Form 1040, meaning there is no direct state revenue impact.

Indirect: This creates increased incentives to organize businesses as pass-through entities, and provides these businesses with a federal tax benefit that increases their after-tax income.

Option 1: Couple to the federal QBI deduction.

- *Advantages:* Would increase after-tax income for most pass-through businesses.
- *Disadvantages:* Would significantly decrease state revenue. In addition, the top state personal income tax bracket rate (5.99%) is already close to the state's corporate income tax rate (7%). This obviates the need for a QBI deduction.

Other Considerations: None.

Student Loans (Sections 70119, 70412)

Description: TCJA created an exclusion from income for student loans that are discharged on account of death or disability. It also allows the exclusion from income/wages up to \$5,250 annually in educational assistance provided by the employer to the employee. This educational assistance includes student loans, but student loans were going to be excluded from the definition of educational assistance starting January 1, 2026.

Change: H.R. 1 makes both provisions, which were set to expire after December 31, 2025, permanent. The law adds a requirement that taxpayers excluding income from discharged student loans provide a work-eligible Social Security number. It also indexes the educational assistance exclusion for inflation starting in 2027.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): Direct: Because these provisions are exclusions from income or wages, they lower federal AGI and therefore decrease state revenue. However, because they are currently in effect, there is no marginal change to state revenue.

Indirect: These provisions may create an incentive for Rhode Island employers to offer educational assistance, although because they already are in place, there is no marginal change in incentives.

Option 1: Rhode Island could require businesses to add back student loan educational assistance (or all educational assistance).

- *Advantages:* Would increase state revenue, likely by around \$1 million per year.
- *Disadvantages:* Would also decrease the incentive for businesses to offer educational assistance.

Other Considerations: Rhode Island offers the Wavemaker Fellowship, which is a competitive fellowship program that offers tax credits to offset the student loan burden for some taxpayers who work in the state.

TCJA Extensions with Modifications

Bonus Depreciation (Section 70301)

Description: TCJA allowed full expensing of qualified property, which is property that is depreciated over a 20 year or less period. This includes vehicles, computer software, certain improvements to residential and nonresidential structures, and some rental property. This expensing is known as “bonus depreciation” and is established in IRC Section 168(k). This 100% bonus depreciation was phased out under TCJA, and reduced to 80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026, and 0% in 2027 and beyond.

Change: H.R. 1 creates a permanent 100% bonus depreciation for property acquired and placed in service after January 19, 2025.

Effective Date / Milestones: January 20, 2025.

State Impacts (Direct and Indirect): Direct: Under R.I. Gen. Laws § 44-61-1, Rhode Island is decoupled from federal bonus depreciation. Rhode Island taxpayers add back federal bonus depreciation claimed on personal income tax Schedule M or corporate income tax Schedule C. There is no direct state impact.

Indirect: More generous bonus depreciation may increase capital expenditures by businesses.

Option 1: Re-couple to federal bonus depreciation.

- *Advantages:* May encourage more capital expenditures by Rhode Island businesses or encourage multi-state businesses to make qualified property investments in Rhode Island.
- *Disadvantages:* Would create a significant state revenue loss and represent a shift in state policy that was first enacted in 2002.

Other Considerations: Rhode Island is currently decoupled from bonus depreciation but not Section 179 expensing. This might influence how Rhode Island taxpayers claim these expenses at the federal level, given the choice between the methods will impact state tax liability. The Rhode Island Society of CPAs, during meetings of the Federal Advisory Working Group, noted that decoupling from expensing provisions in H.R. 1 will add complexity for taxpayers and the Division of Taxation, and represents a shift of the timing of tax liability rather than an ongoing reduction in revenue.

Deductions (Section 70114)

Description: Prior to TCJA, wagering losses could only be deducted up to the amount of wagering winnings for that year under IRC Section 165(d). However, a court decision from 2011 (*Mayo v. Commissioner*) allowed ordinary and necessary business expenses associated with wagering (such as travel and lodging) to be deducted under IRC Section 162(a) and therefore not subject to the limitation under IRC Section 165(d). TCJA changed the definition of wagering losses to include these expenses, thereby making them subject to the limitation. This change in definition was set to expire after December 31, 2025.

Change: H.R. 1 makes this change in definition permanent and also limits the deduction to 90% of the amount of losses (as opposed to 100% allowed under TCJA and prior).

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): Direct: Because this is an itemized deduction on IRS Form 1040, it is a below-the-line deduction and will not impact federal AGI or state revenues.

Indirect: This will decrease after-tax income for any Rhode Island professional gamblers or casual gamblers who itemize.

Option 1: Allow a state-level deduction for wagering losses.

- *Advantages:* Would help gamblers who saw an increase in federal tax liability under H.R. 1.

- *Disadvantages:* Would complicate the state tax code and benefit a relatively small share of the population. Such a change would also contravene 2010 personal income tax reforms in Rhode Island, which sought to limit credits and deductions in order to lower tax rates.

Other Considerations: None.

H.R. 1 New Provisions

529 Plans (Sections 70413, 70414)

Description: 529 plans allow after-tax dollars to be invested, with the gains being exempt from taxation if used for qualified expenses. These expenses include up to \$10,000 annually in K-12 tuition, and postsecondary tuition and other expenses.

Change: H.R. 1 allows 529 plans to be used for more types of elementary and secondary school expenses beyond tuition, such as books, tutoring, and testing fees. It increases the annual cap on K-12 tuition expenses to \$20,000. It also allows 529 plans to be used for postsecondary credentialing expenses. This includes certification, licensing, and continuing education costs.

Effective Date / Milestones: July 4, 2025, with the increased cap for K-12 tuition effective January 1, 2026.

State Impacts (Direct and Indirect): Direct: Because 529 plans are funded with after-tax dollars, there is no change in federal AGI that would impact state revenue.

Indirect: These changes will likely increase usage of 529 plans and increase nontaxable gains from investments in these plans. This will lower state revenues by an indeterminate amount to the extent that these after-tax dollars would have otherwise been invested in taxable accounts. In addition, Rhode Island offers a state income tax deduction of \$500 for single filers and \$1,000 for joint filers for contributions to a 529 plan. Increased usage of 529 plans spurred by changes in H.R. 1 may increase these total deductions.

Option 1: Make distributions for 529 plans that qualify under the expanded definitions under H.R. 1 taxable at the state level. This tax would be assessed on the earnings portion of the withdrawal.

- *Advantages:* Would increase state revenue by an indeterminate amount.
- *Disadvantages:* Would be very difficult to administer and audit given that Rhode Island's current treatment of 529 plans is tied to federal definitions and policy.

Other Considerations: Economic Progress Institute recommended decoupling from this provision.

Car Loan Interest (Section 70203)

Description: Currently, personal interest including car loan interest is not deductible from federal taxes.

Change: This provision allows a deduction of up to \$10,000 for passenger vehicle loan interest each tax year. This deduction begins to phase out with income over \$100,000 for single filers or \$200,000 for joint filers. To qualify, a vehicle must be a car, minivan, van, SUV, pickup truck or motorcycle assembled in the U.S.

Effective Date / Milestones: January 1, 2025, expiring December 31, 2028.

State Impacts (Direct and Indirect): Direct: Draft forms from the IRS indicate that this will be a below-the-line deduction taken after the calculation of federal AGI. As a result, there will be no direct change in state tax revenues.

Indirect: This may increase the purchase of new vehicles in Rhode Island, which are taxable under the state sales tax.

Option 1: Offer a state deduction for car loan interest.

- *Advantages:* Would increase the incentive for purchase new cars.
- *Disadvantages:* Would lead to a sizable revenue loss.

Other Considerations: None.

Clean Vehicles (Sections 70501, 70502, 70503, 70504)

Description: Under current law, there are tax credits for new (up to \$7,500) and previously owned (up to \$4,000) clean vehicles. There is also a credit for commercial clean vehicles of either \$7,500 or \$40,000, depending on vehicle size. Finally, there is a federal tax credit for advanced refueling property of 30% of the cost, capped at \$100,000. These credits were set to expire at the end of 2032.

Change: H.R. 1 terminates these credits.

Effective Date / Milestones: H.R. 1 terminates the vehicle credits after September 30, 2025. The refueling property credit is terminated for property placed in service after June 30, 2026.

State Impacts (Direct and Indirect): Direct: These are federal tax credits and there are no direct state-level impacts.

Indirect: This may decrease the uptake of clean vehicles in the state.

Option: Offer a state-level clean vehicle credit.

- *Advantages*: Would replace the federal credit and maintain the incentive to purchase these vehicles.
- *Disadvantages*: Would cause a significant state revenue loss.

Other Considerations: None.

Higher Education and Nonprofits (Sections 70415, 70416)

Description: There is currently an excise tax of 1.4% on net investment income at certain private colleges and universities (those with over \$500,000 in endowment assets per student). Also, there is a 21% tax on the compensation of \$1 million for the top five highly compensated employees at tax-exempt organizations.

Change: H.R. 1 establishes a tiered endowment tax from 1.4% to 8% based on endowment size per student. H.R. 1 also requires all employees at tax-exempt organizations earning over \$1 million to apply the 21% tax.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): Direct: There are no direct state impacts from these adjustments to federal tax rates.

Indirect: Rhode Island's higher educational institutions and nonprofits will be impacted by this increased tax burden. Analysis of national endowment data indicates that Brown University will be subject to additional endowment taxes. The university has announced layoffs in response to this and other federal policy changes.

Options: While the state could consider state tax relief for these impacted institutions, they are already generally tax exempt under state law.

Other Considerations: None.

Manufacturing Bonus Depreciation (Section 70307)

Description: Typically, depreciation of nonresidential real property occurs over 39 years. Accelerated depreciation, such as bonus depreciation under IRC Section 168(k), generally does not apply to structures.

Change: H.R. 1 created a new section, IRC Section 168(n), which allows first-year expensing of “qualified production property.” This includes property used in manufacturing, production (agricultural and chemical), and refining.

Effective Date / Milestones: Property that began construction after January 19, 2025, and is placed in service after July 4, 2025.

State Impacts (Direct and Indirect): Direct: Under R.I. Gen. Laws § 44-61-1, Rhode Island is decoupled from federal bonus depreciation. This includes depreciation under IRC Section 168(n). Rhode Island taxpayers add back federal bonus depreciation claimed on personal income tax Schedule M or corporate income tax Schedule C. There is no direct state impact.

Indirect: More generous depreciation may increase capital expenditures by businesses.

Option 1: Recouple to IRC Section 168(n).

- *Advantages:* May encourage more capital expenditures by Rhode Island businesses or encourage multi-state businesses to make qualified property investments in Rhode Island.
- *Disadvantages:* Would create a significant state revenue loss and represent a shift in state policy that was first enacted in 2002.

Other Considerations: None.

Miscellaneous Provisions (Sections 70427, 70428, 70436, 70605, 70606, 70607)

Description: H.R. 1 contains many miscellaneous provisions that do not directly impact Rhode Island tax revenues.

Change: These miscellaneous provisions include:

- Permanent increase of the distilled spirits taxes that are allocated to Puerto Rico and the U.S. Virgin Islands,
- Income exclusions for nonprofits promoting fisheries in Alaska,
- Elimination of the firearms excise tax on silencers, short-barreled rifles, short-barreled shotguns, and certain other definitions,
- Increased requirements and penalties of use of COVID-related Employee Retention Credits,
- Requirement to provide a Social Security number to claim American Opportunity and Lifetime Learning Credits, eliminating the ability to use a taxpayer identification number instead, and

- Creation of a task force on the termination of the IRS's Direct File program.

Effective Date / Milestones: Various.

State Impacts (Direct and Indirect): Direct: Because these provisions pertain to federal credits, tax rates, or policies, there is no direct state impact.

Indirect: None.

Options: There are no options associated with these provisions given the lack of state impact.

Other Considerations: None.

Miscellaneous Business Provisions (70308, 70309, 70439, 70525, 70602, 70603)

Description: H.R. 1 contains many miscellaneous business-related provisions that do not directly impact Rhode Island tax revenues.

Change: These miscellaneous provisions include:

- Increase of the advanced manufacturing investment credit from 25% to 30% of qualified investments,
- Allowance for spaceports to qualify for tax-exempt bonds,
- Increase from 20% to 25% the amount of taxable subsidiary securities a real estate investment trust (REIT) can hold (these subsidiaries are companies that provide services to tenants, in contrast to the typical REIT assets of real estate),
- New refund mechanism for diesel or kerosene fuel that was used in a non-taxable manner,
- Clarification that rules under IRC Section 707(a) do not require Treasury regulations, and
- Clarification of how members of a controlled corporate group allocate the deduction for compensation to highly paid employees (which is limited to a \$1 million deduction, thereby preventing deduction of excessive compensation above \$1 million).

Effective Date / Milestones: Various.

State Impacts (Direct and Indirect): Direct: Because these provisions pertain to federal credits, tax rates, or policies, there is no direct state impact.

Indirect: None.

Options: There are no options associated with these provisions given the lack of state impact.

Other Considerations: None.

Miscellaneous Clean Energy Provisions (70522, 70523, 70524)

Description: H.R. 1 contains several miscellaneous clean energy-related provisions that do not directly impact Rhode Island tax revenues.

Change: These miscellaneous provisions include:

- Parity in the credit amounts (\$85 to \$180 per metric ton) for the carbon oxide sequestration credit across disposal methods,
- Increased deductions of drilling costs when calculating the income used for the corporate alternative minimum tax, and
- Allowance for additional types of businesses, including hydrogen storage, carbon capture, advanced nuclear, hydropower, and geothermal energy, to remain partnerships for tax purposes but also be publicly traded.

Effective Date / Milestones: Various.

State Impacts (Direct and Indirect): Direct: Because these provisions pertain to federal credits, tax rates, or policies, there is no direct state impact.

Indirect: None.

Options: There are no options associated with these provisions given the lack of state impact.

Other Considerations: None.

Overtime (Section 70202)

Description: Under current law, overtime is taxed as income.

Change: H.R. 1 creates a new deduction of up to \$12,500 (\$25,000 for joint filers) for qualified overtime compensation. The deduction begins to phase out when the taxpayer's AGI exceeds \$150,000 (\$300,000 for joint filers). The deduction is allowed for both itemizers and non-itemizers.

Effective Date / Milestones: January 1, 2025, expiring December 31, 2028.

State Impacts (Direct and Indirect): Direct: Draft forms from the IRS indicate that this will be a below-the-line deduction taken after the calculation of federal AGI. This means there will be no direct change in state tax revenues.

Indirect: This provision may incentivize employees to request more overtime and may incentivize employers to offer more overtime (potentially in lieu of higher additional workers). Some employees may attempt to shift their income from regular wages to overtime to maximize the deduction.

Option 1: Offer a state-level deduction for overtime income, potentially piggybacked on the federal deduction.

- *Advantages*: Would provide a state tax benefit to the same groups targeted by H.R. 1.
- *Disadvantages*: Would lead to a large, unknown revenue loss for the state.

Other Considerations: None.

Premium Tax Credits (Section 71301, 71302, 71303, 71304, 71305)

Description: Premium tax credits (PTCs) are federal tax credits that subsidize the cost of health insurance on Affordable Care Act exchanges.

Change: H.R. 1 limits the usage of PTCs through five provisions:

- Disallow PTCs for some types of non-residents,
- Disallow PTCs for non-residents who are ineligible for Medicaid despite being low income,
- Increase information required to be verified to receive a PTCs (such as immigration status),
- Disallow PTCs when enrolling through a special enrollment period that is triggered solely by a change in income, and
- Require excess PTCs to be repaid in full (currently, partial repayments are allowed for individuals below 400% of the federal poverty level).

Effective Date / Milestones: The first provision is effective in 2027, the third provision is effective in 2028, the other provisions are effective in 2026.

State Impacts (Direct and Indirect): Direct: Because these are federal tax credits, there is no direct impact on state revenues.

Indirect: These changes will reduce eligibility for PTCs, which will increase the price of health insurance purchased through HealthSource RI for some individuals. This will likely decrease enrollment.

Options: There are no state options because these are federal tax credits.

Other Considerations: None.

Remittance Tax (Section 70604)

Description: A remittance is a transfer of money by a worker in the U.S. to family members in their homeland.

Change: H.R. 1 created a 1% remittance tax on transfers of cash, money orders, cashiers' checks, and other similar methods. Electronic transfers from U.S. banks or using U.S. credits or debit cards are exempt from the tax.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): Direct: Because this is a federal tax, there is no direct state revenue impact.

Indirect: This provision may create a disincentive for Rhode Island residents to provide remittances.

Options: There are no state options because this is a federal tax.

Other Considerations: None.

Reporting (Section 70432, 70433)

Description: Federal law sets thresholds for when a business must issue IRS Form 1099s to taxpayers receiving payments. These 1099s, and the associated income, are captured in the Rhode Island tax filing process.

Change: H.R. 1 reduces reporting requirements in two separate provisions. The first provision pertains to third-party settlement organizations, which are companies that facilitate payments between buyers and sellers of goods and services (such as online marketplaces, ride-sharing apps, payment apps, and ticket resale sites). These organizations are required to issue 1099-Ks to payees when those payments reach a certain threshold. That threshold was \$20,000 (or 200 separate transactions), until it was modified by ARPA. ARPA, as modified by subsequent IRS guidance, required a threshold of \$5,000 in 2024, \$2,500 in 2025, and \$600 in 2026 and beyond (with no transaction threshold). H.R. 1 resets the thresholds to \$20,000 or 200 transactions.

H.R. 1 also increases the threshold to report payments to an independent contractor from \$600 to \$2,000, with that threshold indexed to inflation.

Effective Date / Milestones: The first provision is effective upon passage, while the second provision is effective January 1, 2025.

State Impacts (Direct and Indirect): Direct: The issuance of Form 1099s does not change the underlying tax liability of Rhode Island taxpayers and thus does not directly impact state revenue.

Indirect: Higher reporting thresholds means less reporting, which increases the chances that taxpayers (either willfully or accidentally) will underreport their income. Rhode Island uses federal AGI as the starting place for the state personal income tax return, and relies on IRS rules, procedures, and audits to ensure that income is recognized. These reduced reporting requirements, which were scored as leading to a revenue loss at the federal level, will likely reduce state revenue by an indeterminate amount.

Options: Because these forms and requirements are set at the federal level, and Rhode Island is tied to federal AGI, there are limited state options. Rhode Island already undertakes extensive compliance, collection, and audit efforts to ensure state tax liability is recognized and paid.

Other Considerations: None.

Scholarships (Section 70411)

Description: H.R. 1 creates a new federal scholarship tax credit program, which is a model employed by some states and has similarities to a voucher program.

Rhode Island currently offers a tax credit for contributions to scholarship organizations (R.I. Gen. Laws § 44-62). These tax credits are based on donations made by business entities, and credits are capped at \$100,000 per entity and \$1.6 million overall. Credits are equal to 75% of donations (for a one-year commitment) or 90% of donations (for a two-year commitment).

Change: H.R. 1 creates a new tax credit for scholarship granting organizations (SGOs), which is worth 100% of their donations to these organizations up to \$1,700. These SGOs then provide scholarships to pay for expenses such as tuition, tutoring, and technology. States must opt in to this program and can set rules for how SGOs operate. Federal tax credits are reduced to the extent those same donations are used to qualify for state tax credits.

Effective Date / Milestones: January 1, 2027.

State Impacts (Direct and Indirect): Direct: Because this is a federal tax credit, there is no direct impact on state revenues.

Indirect: Depending on if and how this program is adopted in Rhode Island, public school enrollment might be impacted.

Option 1: Opt out of the scholarship tax credit program.

- *Advantages*: Would prevent possible enrollment changes or other adverse impacts in the public school system.
- *Disadvantages*: Would deny Rhode Island taxpayers a federal tax benefit, and limit school choice for Rhode Island families.

Option 2: Opt in to the scholarship tax credit program and allow use of scholarships for private school tuition.

- *Advantages*: Would maximize school choice and fulfill the legislative intent of the program.
- *Disadvantages*: May adversely impact public school enrollment. Tax credits may aid families that already had the desire and means to send their children to private schools (meaning the program achieves limited marginal benefit).

Option 3: Opt in to the scholarship tax credit program and tailor the program to enrichment activities (such as tutoring and after-school programs).

- *Advantages*: Would allow Rhode Island to participate without directly impacting public school enrollment, and in fact, would provide additional resources to public school students.
- *Disadvantages*: Would limit school choice under the program and may receive pushback from the federal government.

Other Considerations: This new federal program may merit a reconsideration of Rhode Island's tax credit for scholarship organizations. However, Rhode Island's program is focused on business entities as the donors while the federal program is more focused on families.

Senior Deduction (Section 70103)

Description: Under current law, there is an extra standard deduction for seniors (age 65 and older). For the 2025 tax year, the additional deduction is \$2,000 for single taxpayers and \$1,600 per qualifying spouse for married couples filing jointly.

Change: H.R. 1 created an additional senior deduction of \$6,000 per eligible taxpayer 65 or older. This is in addition to the standard deduction and the extra senior standard deduction under current law. This was meant to fulfill the policy proposal to end the taxation of Social Security income, although H.R. 1 did not actually end taxation of Social Security income.

Effective Date / Milestones: January 1, 2026, expiring after December 31, 2028.

State Impacts (Direct and Indirect): Direct: Standard deductions are taken after the calculation of federal AGI and thus do not impact state tax revenues.

Indirect: This will increase after-tax income for some Rhode Island seniors.

Option 1: Couple to this additional senior standard deduction.

- *Advantages:* Would further decrease after-tax liability for seniors, who are often on a fixed income.
- *Disadvantages:* Rhode Island is not coupled to the current federal standard deduction or extra senior standard deduction, so this would represent a significant shift in state tax policy. This would lead to an unknown revenue loss. Rhode Island already exempts Social Security income and up to \$50,000 of pension income for lower-income retirees, meaning many people in this cohort do not face any state tax liability.

Other Considerations: None.

Tips (Section 70201)

Description: Currently, tip income is taxed as regular income.

Change: H.R. 1 creates a new deduction of up to \$25,000 for tip income for employees in qualifying occupations. The deduction begins to phase out when the taxpayer's modified adjusted gross income exceeds \$150,000 (\$300,000 for joint filers). The deduction is fully phased out at \$400,000 of income (\$550,000 for joint filers). Qualifying occupations are set by U.S. Treasury rulemaking. Proposed regulations by the Treasury have set an expansive list of occupations, in the following industries: beverage and food service, entertainment and events, hospitality and guest services, home services, personal services, personal appearances and wellness, recreation and instruction, and transportation and delivery.

Effective Date / Milestones: January 1, 2025, expiring December 31, 2028.

State Impacts (Direct and Indirect): Direct: Because this is a federal deduction, there is no direct state impact.

Indirect: This provision will decrease the federal liability of tipped workers. Tipped workers are likely to be lower-income workers, who are more likely to increase their consumption given higher post-tax income. This may have positive impacts on state sales tax and other revenue streams. H.R. 1 might also change incentives for how employees are paid (by creating an incentive to shift more income to tips rather than wages).

Option 1: Offer a state-level tips deduction.

- *Advantages*: Would provide a commensurate state-level tax benefit to the same population targeted by the federal provision.
- *Disadvantages*: Would lead to a large and indeterminate state revenue loss. It would also contravene 2010 personal income tax reforms in Rhode Island, which sought to limit credits and deductions in order to lower tax rates.

Other Considerations: None.

Trump Accounts (Section 70204)

Description: This provision is a version of a “baby bonds” program. The Rhode Island Generally Assembly created a baby bonds program in 2025, although that program is not yet funded (R.I. Gen. Laws Chapter 35-24).

Change: H.R. 1 establishes Trump Accounts, which is an investment account for children funded by post-tax dollars. Annual contributions to these accounts are capped at \$5,000 (\$2,500 of which can come from an employer). Contributions can also come from nonprofits and government organizations, and these are not counted toward the annual limit. Distributions from the account cannot be made until age 18, after which distributions follow the same rules as an Individual Retirement Account (IRA).

From 2026 through 2028, the federal government will contribute \$1,000 per child into every eligible account.

Effective Date / Milestones: January 1, 2026.

State Impacts (Direct and Indirect): **Direct**: Because Trump accounts are funded with after-tax dollars and distributions are generally taxable, there is no direct state impact (given that no income is excluded from taxation).

Indirect: This program will provide Rhode Island newborns with additional investment savings, although the benefit of that savings will not materialize for many years.

Options: Because this is an optional investment vehicle set up under federal law and funded with a federal contribution, there are no state options.

Other Considerations: This federal program may interact with the Rhode Island baby bonds program, which has yet to be established.

Appendix A: Federal Advisory Working Group Comments

Economic Progress Institute

Attendee supported the current state law provisions that decoupled the state from tax year 2025 and earlier impacts of H.R. 1, and also supported the inclusion of net controlled foreign corporation tested income in the state's corporate tax base. Attendee recommended decoupling from federal opportunity zones, from the expansion of the small business stock gain exclusion, from federal state and local tax deduction changes, and from the 529 plan expansion. Attendee recommended that the state shift from water's edge corporate tax to worldwide reporting, arguing that companies can still shift profits overseas despite state-level combined reporting and federal international tax provisions. This would mean that corporate location decisions do not matter for state tax purposes.

Attendee also recommended an additional tax of 3% on the top 1% of taxpayers by income, which they estimate would raise \$190 million. Some of this revenue could be deposited into the state's supplemental rainy-day fund. They pointed to an EPI brief that showed little impact on migration from tax increases.

Greater Newport Chamber of Commerce

Attendee cautioned against making the state an outlier with neighboring states. They also noted that even retroactive tax breaks can provide resources with which businesses can make investments.

Hospital Association of Rhode Island

Attendee noted that the revenue impacts should include significant reductions in the provider tax for future fiscal years. They also noted that the final report should include pros and cons for each policy option and should consider the burden on state staff. Finally, given the size of potential revenue decreases the report should note the potential need for tax increases.

Northern Rhode Island Chamber of Commerce

Attendee noted support among their constituents for the extension of the Tax Cuts and Jobs Act provisions. They also noted that businesses with locations in multiple states are concerned about operating in Rhode Island given possible changes to the state's tax code.

Rhode Island AFL-CIO

Attendee stated that the focus of the state's response to H.R. 1 should not solely look at how the state adopts and administers federal tax provisions, and that many tax provisions may impact a small number of Rhode Islanders compared to the other provisions of H.R. 1. There was a concern that a state revenue shortfall could not, and should not, be addressed by state employee layoffs or cuts to benefits for Rhode Islanders, and that new revenue should be considered. Attendee stated that there is little evidence that new taxes cause taxpayers to move out of the state. They also argued that increasing unionization of the state's workforce will raise wages and increase revenue and could be aided by a tax credit for union dues.

Attendee noted a desire not to tax small businesses under a potential state millionaire's tax, but also the need to insure those with higher incomes were properly paying taxes. Attendee posited that the usage of pass-through tax structures can be used to underreport income, which was disputed by other members of the working group.

There was a request for an analysis of the impacts of H.R. 1 by income quintile, based on other analyses showing the bottom quintile would see a tax increase from the bill.

Rhode Island Hospitality Association

Attendee noted that Rhode Island's small size means comparison with how the state's tax policy aligns with other states is even more important. They also argued for not overcorrecting for changes in federal policy given that policy might change in the near future.

Rhode Island Public Expenditure Council

Attendee pointed out the need for a set of principles to guide the review of H.R. 1 provisions, and that those principles should extend beyond revenue preservation.

Attendee recommended coupling to any federal provisions with a small fiscal impact for the sake of simplicity. They noted that numerous state add-backs on the tax form will make it complicated for taxpayers. They also pointed out that the change in federal tax policy may create incentives for businesses regardless of what the state chooses to adopt. Finally, they argued that the state should couple to any federal provisions that might increase economic activity and revenue.

Rhode Island Society of CPAs

Attendees noted that Rhode Island businesses are concerned about the added complexity for state taxpayers of decoupling from federal tax provisions in H.R. 1, especially if state policy changes between tax year 2025 and future tax years. There was also discussion of the timing impacts of the federal legislation, given that many of the largest impacts relate to

expensing/depreciation deductions. For example, if the state chooses to decouple from immediate expensing, total tax deductions will remain the same but be spread over multiple years instead of occurring in a single year. Attendees also noted the need to consider the burden of administration for the Divisions of Taxation when considering policy options.

Attendees noted that many of these federal tax provisions impact small- and medium-sized businesses and cautioned that businesses may decide to locate out of the state if Rhode Island becomes an outlier in tax policy. They also argued these relocation decisions can have larger economic consequences to the state. Any large shift in state tax policy (such as to worldwide combined reporting) should be studied first to determine the burden on the state and taxpayers.

Appendix B: Incidence Analysis

Taxpayer Profiles

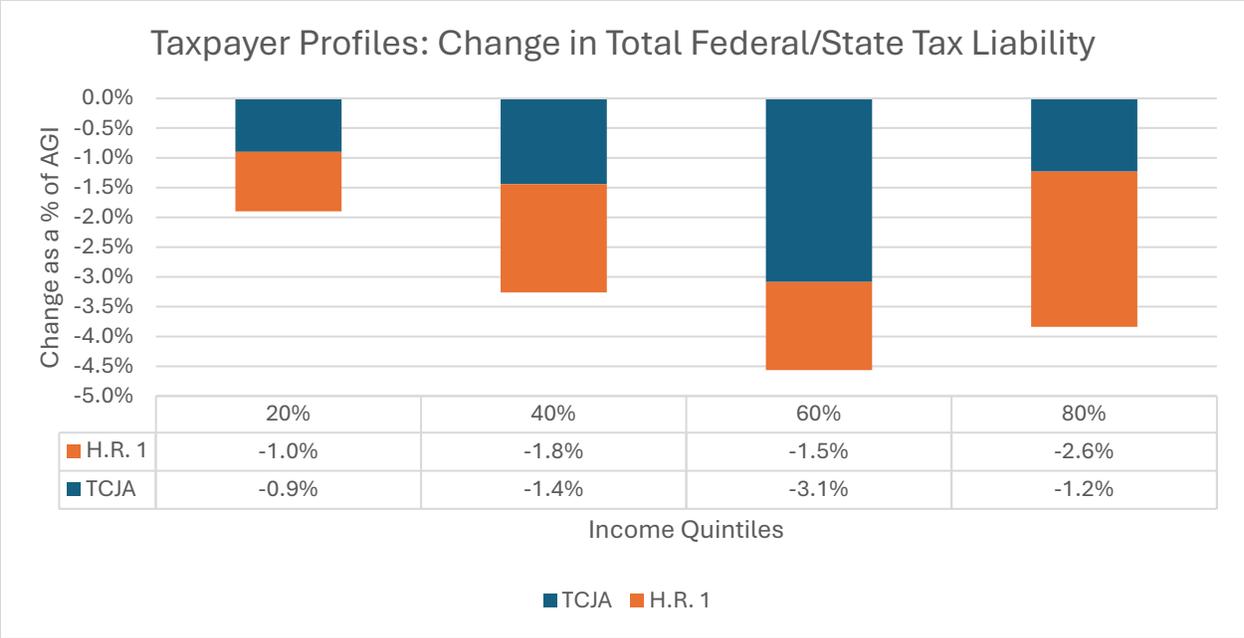
The Office of Revenue Analysis (ORA) created four taxpayer profiles in personal income tax quintiles to show the impacts of H.R. 1. These should not be interpreted to show total or average impacts but to provide illustrative examples.

These profiles generally do not include business tax impacts, which make up most of the new changes in H.R. 1. Some personal income taxpayers with pass-through entity income will be impacted by these business tax changes (the 80% quintile example assumes pass-through income).

Almost all the impacts shown here are federal; there is little change in state tax liability for these examples. As discussed in this report, there will be significant state revenue impacts from these business tax provisions due to corporate tax filers. The results are shown in both change in tax liability (dollars) and as a percentage change in AGI. Please note that the other distributional analyses in this report use different metrics and generally look at total income rather than AGI.

The taxpayer profiles are as follows:

- *20% Quintile:* Minimum wage worker making \$25,000 per year, of which 10% is tip income. Single filer who claims the standard deduction.
- *40% Quintile:* Retired, single adult with \$40,000 in taxable income. Half of taxable income is from a pension; the other half is split between an IRA and Social Security. Claims the enhanced elderly standard deduction.
- *60% Quintile:* Married, middle-class couple with two children under 17. Has \$140,000 in combined wage income. Claims the standard deduction. Has childcare expenses, charitable contributions, and just bought a new car.
- *80% Quintile:* Married, upper-class couple with two children under 17. Around two-thirds of their combined income of \$240,000 is from a partnership that has R&D expenses. Itemizes their deductions.



Taxpayer Profiles: Change in Tax Liability, Disaggregated by Federal/State and TCJA/H.R. 1					
	TCJA		H.R. 1		Total
	<i>State</i>	<i>Federal</i>	<i>State</i>	<i>Federal</i>	
20% Income Quintile	\$0	\$(180)	\$0	\$(200)	\$(380)
40% Income Quintile	\$0	\$(570)	\$0	\$(720)	\$(1,290)
60% Income Quintile	\$0	\$(4,320)	\$(230)	\$(1,850)	\$(6,400)
80% Income Quintile	\$420	\$(3,390)	\$(420)	\$(6,050)	\$(9,440)

Here is a summary of the results of those profiles:

- **20% Quintile**
 - TCJA: Sees a benefit from the increased standard deduction.
 - H.R. 1: Can claim a \$2,000 deduction for tip income.
- **40% Quintile**
 - TCJA: Benefits from increased TCJA standard deduction and lower rates.
 - H.R. 1: Further benefits from the additional \$6,000 senior deduction.
 - Has no state tax liability.
- **60% Quintile**
 - TCJA: Any benefit from the increased standard deduction is offset by the loss of personal exemptions. Benefits from decreased federal tax rates. Majority of tax decrease is from the increased amount/higher phase-out of the child tax credit (goes from \$500 to \$4,000 for two children; increases to \$4,400 under H.R. 1).

- H.R. 1: Able to deduct \$2,000 of car loan interest and \$500 in non-itemizer charitable deduction. Also able to claim an additional \$900 in child and dependent care credits against \$20,000 in expenses (which reduces state taxes by \$230).
- *80% Quintile*
 - TCJA: Significantly impacted by the state and local tax deduction cap (estimate does not assume state elective PTE tax). Helped by lower federal tax rates. Able to claim the qualified business income deduction.² R&D deductions are limited, increasing income by around \$7,000. Able to claim \$4,000 in child tax credits (previously had been \$0). Saves around \$3,000 in tax from the increased thresholds for the alternative minimum tax.
 - Under H.R. 1: Increased SALT cap allows full deduction of those taxes at the federal level. Able to deduct full R&D expenses.³ Child tax credit increases by \$400.

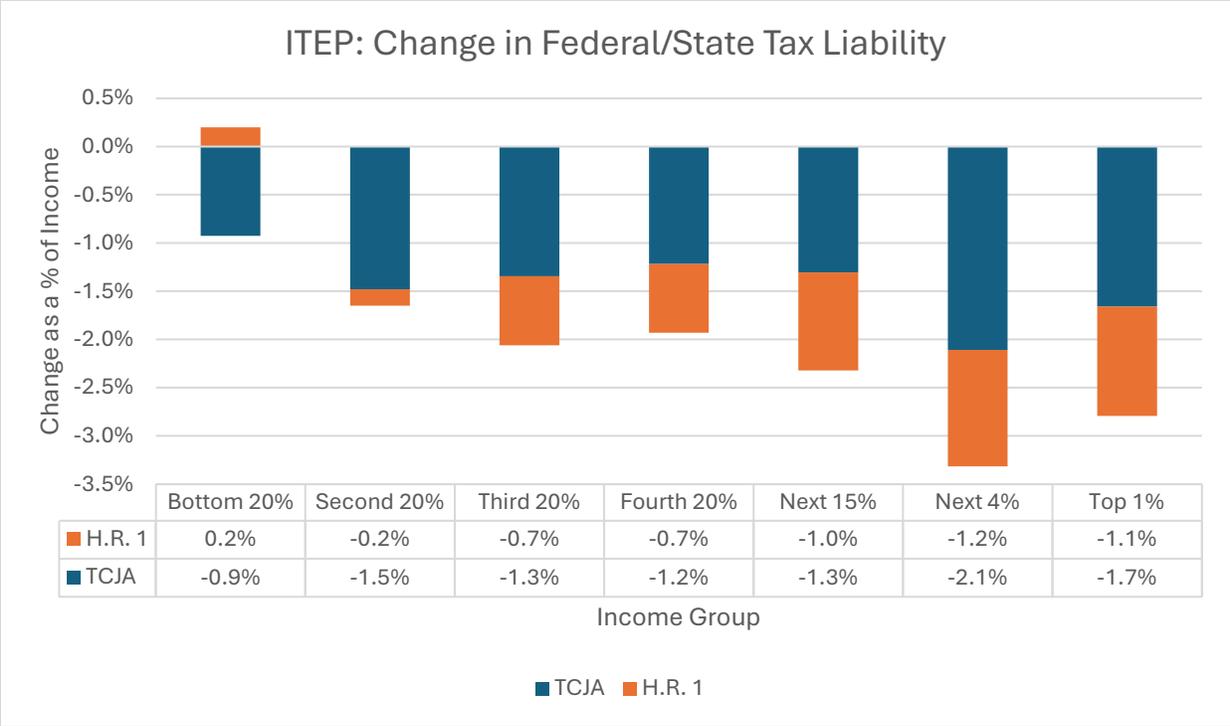
Summary of Tax Incidence

Several organizations performed a distributional analysis of H.R. 1. These differ from the above taxpayer profiles in that they look at the combined impact of all provisions (including items not captured in the profiles), such as the higher estate tax threshold, limits on Affordable Care Act credits, repeals of green energy incentives, and business tax changes.

The Institute on Taxation and Economic Policy (ITEP) provided analysis of the impacts of both the TCJA extension and the new provisions in H.R. 1. This analysis is specific to Rhode Island and looks at changes in both state and federal tax liability. It shows that the tax decreases become larger for higher income groups, and the H.R. 1 tax impacts show more variation by income group than the TCJA impacts (including a tax increase on the lowest income quintile under H.R. 1).

² Uses average QBI deduction claimed from IRS data for this income cohort; only equates to 5% of income rather than the full 20% deduction, so may be undercounting tax benefit.

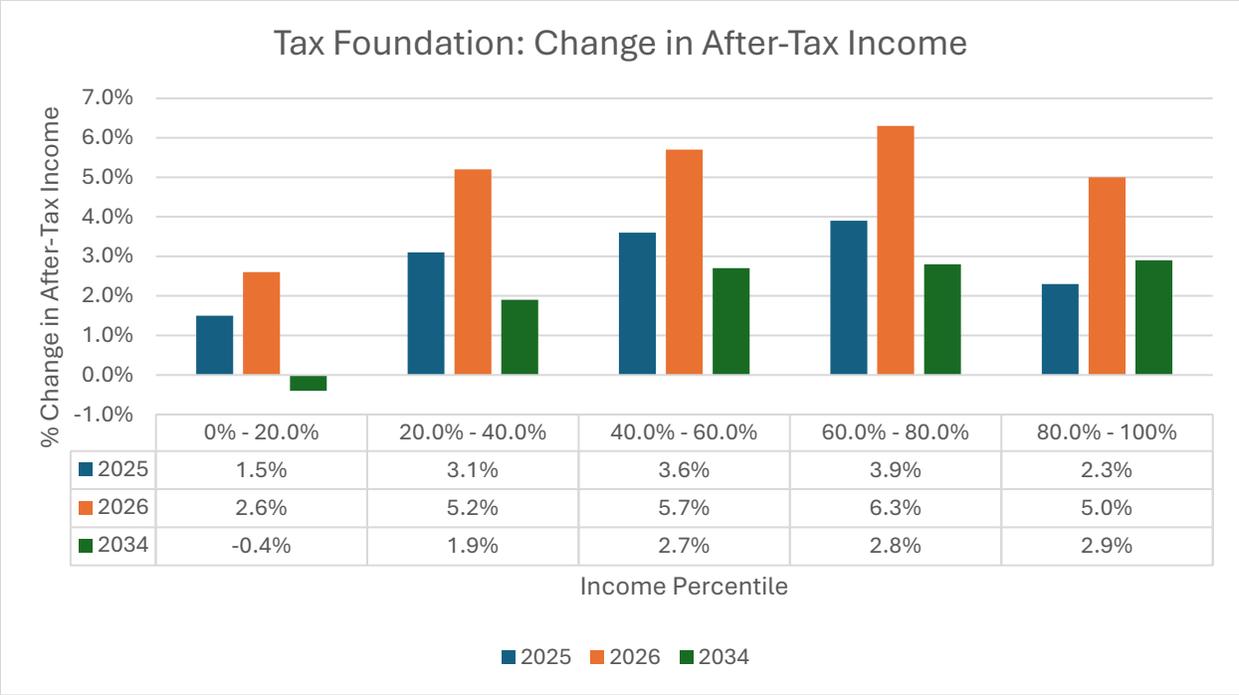
³ This analysis assumes that these full R&D expense deductions would flow through to the state tax return. This is not the case in TY 2025 because of decoupling but is the case for TY 2026 under current law.



The Tax Foundation published an analysis looking at the change in after-tax income by income percentile.⁴ This analysis represents the change in federal policy, is not reflective of Rhode Island tax laws, and combines both the extension of TCJA policies and new provisions in H.R. 1. It generally shows an increase in after-tax income (which is equivalent to a decrease in tax liability in the ITEP analysis). While it shows more overall benefit than the ITEP analysis, it still shows larger changes for those higher up the income scale.

The analysis looks at three points in time: 2025, 2026, and 2034. The preservation of the TCJA tax cuts explain the larger income increases in 2026, while the expiration of some of the H.R. 1 provisions explain the lower benefits in 2034. The Tax Foundation attributes the decrease in income for the lowest percentile by 2034 to “tighter rules for premium tax credits, the earned income credit, and the child tax credit.” The group also published a dynamic analysis that considers economic growth spurred by the passage of H.R. 1.

⁴ <https://taxfoundation.org/research/all/federal/big-beautiful-bill-senate-gop-tax-plan/>



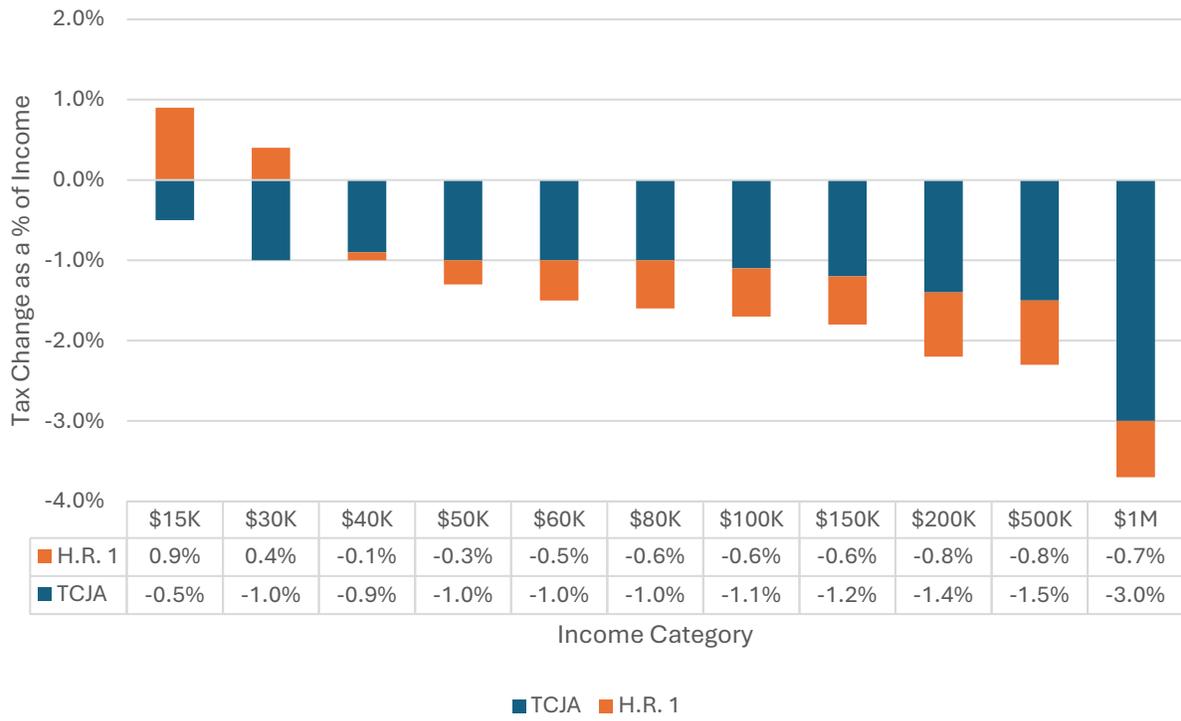
The Joint Committee on Taxation (JCT) also published a national-level analysis.⁵ Their analysis looked at the change in average tax rate by income category. ORA multiplied the old average tax rate and the new average tax rate by the income for that group to determine a change in tax liability. This change in tax liability was then divided into the income for that group to calculate a percentage change in tax liability as a share of income (roughly equivalent to the ITEP analysis).

JCT published this analysis on both a current law and current policy baseline. ORA assumed that the current law baseline reflects the impacts of both the TCJA extension and the new provisions in H.R. 1. The current policy baseline reflects only the new provision in H.R. 1. By subtracting the current policy baseline from the current law baseline estimates, ORA calculated the impact of the TCJA in isolation.

Similar to the ITEP analysis (and the Tax Foundation analysis to a lesser extent), the JCT numbers show potential tax increases for lower-income groups under H.R. 1. The JCT analysis shows an even greater skewing of the benefits to those in the upper income groups.

⁵ <https://www.jct.gov/publications/2025/jcx-36-25/>, <https://www.jct.gov/publications/2025/jcx-37-25/>

JCT: Distribution of Revenue Effects



Errata

Page 1: Added the president/CEO of the Greater Newport Chamber of Commerce as an advisory working group member.

Page 56: Changed “Would further increase after-tax liability for seniors, who are often on a fixed income” to “Would further decrease after-tax liability for seniors, who are often on a fixed income.”