

Benefit-Cost Analysis

Modifications to Net Income Due to Decoupling from P.L. 119-21, H.R.1 (280-RICR-20-25-17) and Modifications to Rhode Island Income of a Resident Individual Due to Decoupling from P.L. 119-21, H.R.1 (280-RICR-20-55-17)

Rhode Island Department of Revenue, February 2026

Introduction

This regulatory action will make permanent two emergency regulations promulgated in December 2025 by the Rhode Island Division of Taxation (the “Division”). These regulations codified the decoupling of the state tax code from revenue decreasing provisions in federal law H.R.1 (commonly known as the One Big Beautiful Bill Act, Public Laws No.: 119-21).

Background

The FY 2026 enacted Rhode Island budget decoupled from any deductions or allowances in H.R.1 effective for tax year (“TY”) 2025 or earlier tax years (R.I. Gen. Laws § 44-11-11(a)(1)(viii) and R.I. Gen. Laws § 44-30-12(b)(9)). The intent of the law was to preserve the state tax base. The law allowed the Division to issue emergency regulations to effectuate this goal. The Division issued these regulations in December 2025 to specify which H.R.1 provisions the state was decoupled from, and how taxpayers could add back these deductions on their state tax forms. One regulation applied to business corporation tax and the other applied to personal income tax.

Rhode Island tax collections were impacted by H.R.1 because Rhode Island has rolling conformity with the federal tax code. For businesses, state tax forms begin with taxable income as specified on the federal tax form. For individuals, state tax forms begin with federal adjusted gross income (AGI). Any federal law changes that impact the calculation of business taxable income or AGI will flow down to state tax reporting. Generally, the H.R.1 provisions with a state-level impact were federal tax cuts that would lead to a reduction in state revenue.

Proposed Amendments

These regulations have two main components: they specify which H.R.1 provisions qualify for decoupling under the state statute, and they explain how taxpayers should add back those federal deductions when filing their state tax forms.

For both business corporation tax and personal income tax, those H.R.1 provisions are:

- Modification of limitation on business interest in 26 U.S.C. § 163(j),
- Treatment of certain qualified sound recording productions in 26 U.S.C. §§ 168(k) and 181,
- Full expensing of domestic research and experimental expenditures in 26 U.S.C. § 174A, and

- Increased dollar limitations for expensing of certain depreciable business assets in 26 U.S.C. § 179(b).

The regulation also describes other H.R.1 provisions that the state is not automatically coupled to based on how the state tax code is linked to the federal tax code. These provisions, which impact personal income tax, are “below-the-line” deductions that are accounted for after the calculation of federal AGI. They are described in the regulation for the awareness of the taxpayer, even though those parts of the regulation do not change policy:

- Deduction of interest payments for individuals related to the purchase of a qualified passenger vehicle and vehicle loan interest in 26 U.S.C. §163(h),
- Income tax deduction for qualified tips in 26 U.S.C. § 224, and
- Income tax deduction for qualified overtime in 26 U.S.C. § 225.

Regulatory Options

The Division’s interpretation of state law is that these regulations were required to fulfill the intent of the statute, with the Division exercising little if any discretion in their drafting. Nevertheless, this regulatory analysis presents three possible regulatory options: the creation of a de minimis revenue loss threshold that guides the selection of which provisions qualify for decoupling, the inclusion of additional provisions beyond the proposed regulation, and the establishment of an alternative schedule for Rhode Island taxpayers claiming research and development (§ 174A) expenses. While these alternatives were considered in the rulemaking, they were rejected as contrary to the intent of the statute.

Analysis

The primary impact of these regulations is increased tax liability for taxpayers who would otherwise claim deductions against the taxable income under H.R.1. Compared to a status quo baseline, these taxpayers will not see a change in tax liability (given that the state’s decoupling from H.R.1 preserves the status quo). However, benefit-cost analyses typically use a counterfactual baseline, which would be a state tax code that conforms to H.R.1. Compared to this counterfactual baseline, tax liability for affected taxpayers is increased.

Generally, benefit-cost analyses treat taxes and fees as transfers: they are a cost to the taxpayer but a benefit to the government. This yields a net benefit of \$0 as these benefits and costs offset each other. Additionally, the provisions of these regulations are required by statute, meaning there are no discretionary benefits or costs.

To comply with regulatory analysis requirements in the state Administrative Procedures Act, this analysis does: (a) estimate the change in tax liability due to the decoupling from H.R.1, and (b) include a qualitative discussion of the social benefits and costs associated with this regulatory action.

The FY 2026 enacted budget required the Rhode Island Department of Revenue (the “DOR”) to analyze the impact of H.R.1 on state revenue. The DOR contracted with Chainbridge Software LLC to assist in the analysis, which the department had previously done after the 2017 passage of the federal Tax Cuts and Jobs Act. Chainbridge, working alongside the Division and the DOR’s Office of Revenue Analysis,

quantified both the avoided revenue loss in TY 2025 due to the state's decoupling and the future revenue loss from TY 2026 and beyond.¹ This cost-benefit analysis uses those estimates of TY 2025 avoided revenue loss to quantify the transfers associated with this regulatory action.

Costs

According to the DOR analysis, the federal provisions included in the regulation would have decreased state revenue by the following amounts in TY 2025:

- Modification of limitation on business interest: \$10.1 million,
- Treatment of certain qualified sound recording productions: \$0.1 million,
- Full expensing of domestic research and experimental expenditures: \$65.8 million, and
- Increased dollar limitations for expensing of certain depreciable business assets: \$2.8 million.

This means the policy choice to decouple, when compared to a counterfactual baseline, increased tax liability for Rhode Island filers by \$78.8 million. This indicates a transfer of this tax revenue from taxpayers to state government, with the costs and benefits offsetting. As noted previously, this is a result of the statutory mandate rather than discretionary regulatory choices.

There are potential societal costs to this decoupling that extend beyond the transfer of resources. Most notably, allowing full expensing of research and development ("R&D") costs is meant to incentivize R&D spending. To illustrate this, the DOR analysis of the future impacts of H.R.1 assumes an ongoing revenue loss from immediate R&D expensing of \$2.0 million. Because immediate expensing of R&D costs represents a timing shift, increased outyear costs beyond five years only make sense if the analysis assumes an overall higher level of R&D spending compared to the counterfactual. This is the case: the Rhode Island impacts of the R&D provision are based on the federal Joint Committee on Taxation's ("JCT") national revenue loss estimates, and the JCT assumes increased R&D spending due to this policy change.

As a hypothetical example, assume the \$2.0 million in increased R&D spending is the result of deductions against the state's corporate income tax, which has a 7% tax rate. This suggests H.R.1 results in \$28.6 million of increased R&D spending ($\$2.0 \text{ million} / 7\%$). According to an analysis of the Rhode Island state-level R&D tax credit, every \$1 of R&D tax credits results in \$3.76 of additional state general revenue. Assuming the metric is the same for forgone revenue from R&D expensing, the state is forgoing \$7.5 million of additional general revenue by not creating the incentive for increased R&D spending ($\$2.0 \text{ million} \times \3.76). The forgone gross state product would be larger still than the general revenue loss.

However, the hypothetical is less relevant to this current policy action because most of the R&D spending impacted by the decoupling is from prior tax years. H.R.1 allows full or accelerated expensing for R&D costs in TYs 2022, 2023, 2024, and 2025. Taxpayers cannot go back in time and increase their R&D spending over any period prior to 2025. In addition, H.R.1 was adopted on July 4, 2025, meaning that only R&D spending in the last half of 2025 could have been incentivized with the federal policy change. This same logic applies to the other provisions mentioned in the regulation, which all apply to

¹ Analysis of H.R. 1 Tax Provisions (available at <https://dor.ri.gov/revenue-analysis/reports>) (last visited Feb. 2, 2026).

TY 2025. Therefore, the larger societal costs and benefits were likely limited due to the retroactive nature of the policy change.

Benefits

As mentioned previously, the main benefit of regulation is increased resources for Rhode Island state government. In the absence of that revenue, the FY 2026 enacted budget would have had to forgo spending or raised other taxes and fees. Both actions would have societal costs to the state.

There is a debate between economists about the multiplier on government spending. Some economists see government spending as a “leaky budget,” where waste and overhead lead to benefits that are less than a dollar for each dollar of government spending.² Other studies have found a positive multiplier on government spending, which can increase overall consumer spending.³ This regulatory analysis does not quantify these possible benefits of additional state government resources, other than to note that a reduction of revenue of \$78.8 million would have significant impacts on the state budget (which is required to be balanced). As mentioned previously, these possible benefits are a result of the statutory mandate rather than the regulatory language.

Determination

Pursuant to the Administrative Procedures Act, R.I. Gen. Laws § 42-35-2.9(b), the Division has determined that there is no alternative approach among the alternatives considered during the rulemaking proceeding which would be as effective and less burdensome to affected private persons as another regulation. Furthermore, the Division has determined that the benefits of the proposed rules justify the costs of the proposed rules, and the proposed rule will achieve the objectives of the authorizing statute in a more cost-effective manner, or with greater net benefits, than other regulatory alternatives.

Alternative 1: De Minimis Threshold

The Division considered establishing a de minimis threshold, with any items with a revenue loss below that threshold excluded from the list of decoupled provisions. The Division considered a threshold of \$1 million.

Benefits

This would ease the compliance burden on taxpayers, who would have to add back fewer federal deductions when completing their state taxes. For example, a \$1 million de minimis threshold would have eliminated the decoupling from the treatment of certain qualified sound recording productions provision in H.R.1.

² Chris Edwards, *Federal Spending Is a Leaky Bucket*, Cato Institute (Mar. 24, 2025, 10:37 AM), <https://www.cato.org/blog/federal-spending-leaky-bucket>.

³ Renee Haltom, *Fiscal Multiplier*, Federal Reserve Bank of Richmond, Econ Focus (Fourth Quarter 2018), https://www.richmondfed.org/publications/research/econ_focus/2018/q4/jargon_alert.

Cost

This alternative would reduce state revenue. It also creates fiscal risk, given that the estimates from the DOR study have an (unknown) margin of error.

Determination

This alternative was determined to not be as aligned with statutory intent as the provisions proposed for public comment. The statute stated that the goal of the policy was “preserving the Rhode Island tax base,” and was meant to include “any income, deduction, or allowance.”

Alternative 2: Inclusion of Additional Items

The Division considered including additional items beyond the four mentioned in the regulation. For example, there were provisions related to small business stock gain exclusions and the extension of safe harbor for telehealth services that do not require a deductible. There was also one provision (termination of cost recovery for clean energy facilities) which potentially increases state revenue. These provisions were all effective upon passage.

Costs

Decoupling from these provisions may lead to increased tax liability for impacted taxpayers, representing a transfer from those filers to state government. In total, these provisions may have led to a \$0.1 million increase in taxpayer liability.

Benefits

Including additional provisions may preserve more state revenue and mitigate against the risk that the DOR study estimates were undercounting the potential revenue loss.

Determination

The Division determined that these provisions did not have a direct revenue impact in TY 2025 or earlier tax years. For example:

- The stock gain exclusion only applies to stock held for three years or more, meaning the impact will be realized after TY 2025, and
- The telehealth services safe harbor provision, while effective for health plans in 2025, is unlikely to result in any meaningful change in insurer behavior given that most health plans operate on calendar year basis.

In addition, the Division determined that the most appropriate interpretation of the statutory mandate to “preserve” state revenue would be to not decouple from any provisions that increased revenue, such as the clean energy facility cost recovery change.

Alternative 3: Alternative R&D Expense Schedule

The Division considering including an amortization schedule for R&D expensing that was different than the five-year schedule established in the regulation.

Costs

A shorter amortization schedule would have led to increase revenue loss compared to the status quo (which was the five-year amortization of R&D expenses prior to the enactment of H.R.1). This lowers available state government resources. Conversely, a longer amortization schedule would have increased state revenue compared to the status quo.

Benefit

Allowing an amortization schedule shorter than five years may preserve some of the incentive for R&D spending discussed earlier in the analysis, while mitigating the near-term revenue loss.

Determination

The Division determined setting an alternative R&D expense amortization schedule would involve considerable agency discretion, given the intent of the statute to preserve the pre-H.R.1 revenue base of the state. Any schedule other than five years represents a policy choice that requires legislative input. Specifically, a shorter amortization schedule would have reduced state revenue and been contrary to the statutory mandate to preserve the tax base.