

**State of Rhode Island**  
**Department of Administration**  
**Office of Management and Budget**

Fiscal Note for Proposed Administrative Rules (R.I. Gen. Laws § 22-12-1.1)

**Name of Administrative Rule:** 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)

<b>FISCAL IMPACT</b>					
<i>State Revenues</i>		<i>State Expenditures</i>		<i>City/Town Expenditures</i>	
FY 2026	\$0	FY 2026	\$0	FY 2026	\$0
FY 2027	\$0	FY 2027	\$0	FY 2027	\$0
FY 2028	\$0	FY 2028	\$0	FY 2028	\$0

**Summary of Policy Change:** The FY 2026 enacted Rhode Island budget decoupled from any deductions or allowances in federal law H.R.1 (commonly known as the One Big Beautiful Bill Act, Public Laws No.: 119-21) 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 Rhode Island Division of Taxation (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.

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).

**Summary of State Fiscal Impact:** The policy choice to decouple from the above provisions of H.R.1 will increase state tax revenue in TY 2025, realized in state fiscal year 2026. The Division considers these revenue gains a consequence of the statute rather than the regulation, which is why this fiscal note includes an impact of \$0 to state revenues. The Division, using an analysis of H.R.1 produced by the Rhode Island Department of Revenue (the “DOR”), is able to quantify these revenue gains. 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.

**City or Town Impact:** None.