

# Protecting Rhode Island's Tax Revenue: H.R.1 Tax Provisions Rhode Island Policymakers Should Reject and Why Decoupling is the right move NOW!

## The Issue

Federal tax changes under H.R.1 could cost Rhode Island at least \$35 million each year beginning in Tax Year 2026 – unless the General Assembly takes action.

Because Rhode Island follows **rolling conformity**, federal tax changes automatically become state law unless the state explicitly **decouples** from them.

In the FY2026 budget, General Assembly leadership had the foresight to plan for decoupling for Tax Year 2025 even before H.R.1 was enacted. This move **protected an estimated \$80 million in state revenue**.

**New legislation is needed** to extend these protections to Tax Years 2026 and beyond.

## Why This Matters

- These tax provisions primarily benefit wealthy households, large corporations, and investors.
- Many benefits flow to investors and companies outside Rhode Island.
- These provisions frequently subsidize out-of-state economic activity.
- Companies and investors can still claim the more generous federal benefits, even when RI decouples.
- These incentives, if they work at all, work at the federal level—not as state policy.
- State revenue will be reduced without strengthening Rhode Island's economy.
- Some provisions are retroactive, and retroactive tax breaks cannot incentivize future growth.
- Decoupling protects revenue without harming Rhode Island's small businesses.
- At a time of budget pressure and unmet needs, these provisions would drain funding for public priorities such as education, healthcare, housing, and infrastructure.



H.R.1 Federal Tax Provision	Why It's a Problem	Estimated Annual Revenue Cost
<b>Research &amp; Development Expensing</b> (Section 70302) (included in Governor's proposed budget)	Retroactive deductions reward past behavior without incentivizing future investment, while front-loading state revenue losses.	<b>\$20.0M–\$25.0M</b>
<b>Qualified Small Business Stock (QSBS)</b> (Section 70431)	Only C-Corps qualify; 94% of benefits go to households earning over \$1M; often benefits out-of-state investments.	<b>\$3.7M</b> (existing credit)
		<b>\$2.3M–\$3.0M</b> (H.R.1 expansion)
<b>Foreign-Derived Deduction Eligible Income (FDDEI)</b> (Sections 70321, 70322, 70323)	Rhode Islanders could claim benefit for investment in out-of-state companies, with RI losing revenue without economic gain.	<b>\$13.5M</b>
<b>Business Interest Deductibility Changes</b> (Section 70303)	Businesses use what was already a generous provision to leverage debt to reduce tax obligations, including for private equity transactions.	<b>\$4.4M–\$5.9M</b>
<b>Expanded Small Business Expensing</b> (Section 70306)	Accelerates deductions and frontloads state revenue losses without evidence of increased in-state investment.	<b>\$1.8M–\$3.6M</b>
<b>Opportunity Zones Expansion</b> (Section 70421)	Benefits wealthy investors and corporations, mostly for real estate investments rather than job creation for local communities.	<b>\$5.0M–\$6.0M</b> (existing program + expansion)
<b>Total</b>	Some annual revenue losses decrease over time and others increase.	<b>\$35.0M–\$50.0M</b>

## EPI's Recommendation

The General Assembly should act to decouple from these six H.R.1 tax provisions and some existing credits for Tax Years 2026 and beyond, preserving critical state revenue while allowing businesses to continue receiving federal tax benefits.