**At the State House**

At the time this edition is being written, only one hearing has been scheduled for this week. The House Finance Committee will be receiving an update on the budget situation at the Eleanor Slater Hospital Tuesday at 4:30 p.m.

Last week, the **House Finance Committee** met to take testimony surrounding the Governor’s request to amend Article 8 (Tax Article of the budget). As was stated in last week’s edition of Under the Dome, the amendment seeks to decouple Rhode Island tax law from the federal excess loss deduction found in 26 U.S.C. section 461(1)(1)(B) in tax years 2018-2020.

As background, prior to 2017, individual taxpayer’s excess business losses (pass-through entities) could deduct the total amount of loss in the year the loss was incurred, regardless of the amount of loss. In December of 2017, Congress passed the Tax Cut and Jobs Act which changed the federal tax code to only allow deductions for excess loss up to $250,000 for an individual/$500,000 for joint filers. Any losses incurred over and above that amount could be included in future tax filings as a loss. When Congress passed the CARESAct this year, it suspended the cap on excess business losses for pass through entities, for the years 2018, 2019 and 2020. This was a retroactive change to the federal tax code. Some businesses may have filed amended returns already to take advantage of the federal change.

During the Rhode Island May Revenue Estimating Conference, this issue was raised, but the Department of Revenue (DOR) was unable, at that time, to predict the State’s revenue implications as a result of the federal change. Rhode Island is one of the states that – for the most part – piggy backs state taxes on federal income calculations. So, any change in federal income tax law, affects state tax collections. Since May, DOR has been working to determine the impacts of the CARESAct change. DOR believes 692 tax returns would be impacted should Rhode Island decouple and push off the retroactive tax change to future years. Four hundred eighty-one (481) of those returns come from individuals with more than $1 million in federal adjusted gross income. One hundred two (102) returns come from individuals with AGI of $250,000 to $1 million; and 109 returns have AGI of under $250,000. While a majority of the returns are tied to non-residents, 80% of the refunds would go to Rhode Island residents because out of state filers must pay their own state income tax first then pay the remaining amount owed (according to Rhode Island law) to the state of Rhode Island.

DOR believes that if the Governor’s amendment is not passed, then the State will experience an $18.8 million decrease in state revenue in FY2020 and $10.3 million in FY2021. If the amendment is passed, then the impact to State revenue would be $0 in FY2020, $0 in FY2021 and a reduction of $5.8 million a year from FY2022-FY2026.

One alternative discussed was the possibility of decoupling the excess loss provision in the current fiscal year instead of going retroactive to 2018 like the CARESAct. The Division of Taxation asked for some time to consider that possibility from a technical capability view.

If this proposed amendment would affect you, please let the Chamber know.

The following new bills have been filed:

House Bill No. [8130](http://webserver.rilin.state.ri.us/BillText/BillText20/HouseText20/H8130.pdf) Mattiello, Hawkins, Carson, Caldwell, Marszalkowski**,**AN ACT RELATING TO ALCOHOLIC BEVERAGES - RETAIL LICENSES (Authorizes a holder of a Class B license to sell alcoholic beverages with take-out food orders and would sunset on December 31, 2021.)

House Bill No. [8132](http://webserver.rilin.state.ri.us/BillText/BillText20/HouseText20/H8132.pdf) Williams**,**AN ACT RELATING TO STATE AFFAIRS AND GOVERNMENT -- PROMPT PAYMENT BY DEPARTMENT OF ADMINISTRATION--SUBCONTRACTOR PAYMENTS (Expedites payments on state contracts for subcontractors.)

House Bill No. [8136](http://webserver.rilin.state.ri.us/BillText/BillText20/HouseText20/H8136.pdf) Williams**,**AN ACT RELATING TO HOLIDAYS AND DAYS OF SPECIAL OBSERVANCE -- HOLIDAYS (Eliminates the state holiday of Victory Day and insert in place thereof the state holiday of Emancipation Day to be held on August 1.)