

2010 -- H 7824

LC02025

STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2010

A N A C T

RELATING TO TAXATION - PERSONAL INCOME TAX

Introduced By: Representatives Handy, Ajello, Almeida, Diaz, and Segal

Date Introduced: February 25, 2010

Referred To: House Finance

It is enacted by the General Assembly as follows:

1 SECTION 1. Section 44-30-2.6 of the General Laws in Chapter 44-30 entitled "Personal
2 Income Tax" is hereby amended to read as follows:

3 **44-30-2.6. Rhode Island taxable income -- Rate of tax.** -- (a) "Rhode Island taxable
4 income" means federal taxable income as determined under the Internal Revenue Code, 26 U.S.C.
5 section 1 et seq., not including the increase in the basic standard deduction amount for married
6 couples filing joint returns as provided in the Jobs and Growth Tax Relief Reconciliation Act of
7 2003 and the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), and as
8 modified by the modifications in section 44-30-12.

9 (b) Notwithstanding the provisions of sections 44-30-1 and 44-30-2, for tax years
10 beginning on or after January 1, 2001, a Rhode Island personal income tax is imposed upon the
11 Rhode Island taxable income of residents and nonresidents, including estates and trusts, at the rate
12 of twenty-five and one-half percent (25.5%) for tax year 2001, and twenty-five percent (25%) for
13 tax year 2002 and thereafter of the federal income tax rates, including capital gains rates and any
14 other special rates for other types of income, except as provided in section 44-30-2.7, which were
15 in effect immediately prior to enactment of the Economic Growth and Tax Relief Reconciliation
16 Act of 2001 (EGTRRA); provided, rate schedules shall be adjusted for inflation by the tax
17 administrator beginning in taxable year 2002 and thereafter in the manner prescribed for
18 adjustment by the commissioner of Internal Revenue in 26 U.S.C. section 1(f). However, for tax
19 years beginning on or after January 1, 2006, a taxpayer may elect to use the alternative flat tax

1 rate provided in section 44-30-2.10 to calculate his or her personal income tax liability.

2 (c) For tax years beginning on or after January 1, 2001, if a taxpayer has an alternative
3 minimum tax for federal tax purposes, the taxpayer shall determine if he or she has a Rhode
4 Island alternative minimum tax. The Rhode Island alternative minimum tax shall be computed by
5 multiplying the federal tentative minimum tax without allowing for the increased exemptions
6 under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (as redetermined on federal
7 form 6251 Alternative Minimum Tax-Individuals) by twenty-five and one-half percent (25.5%)
8 for tax year 2001, and twenty-five percent (25%) for tax year 2002 and thereafter, and comparing
9 the product to the Rhode Island tax as computed otherwise under this section. The excess shall be
10 the taxpayer's Rhode Island alternative minimum tax.

11 (1) For tax years beginning on or after January 1, 2005 and thereafter the exemption
12 amount for alternative minimum tax, for Rhode Island purposes, shall be adjusted for inflation by
13 the tax administrator in the manner prescribed for adjustment by the commissioner of Internal
14 Revenue in 26 U.S.C. section 1(f).

15 (2) For the period January 1, 2007 through December 31, 2007, and thereafter, Rhode
16 Island taxable income shall be determined by deducting from federal adjusted gross income as
17 defined in 26 U.S.C. section 62 as modified by the modifications in section 44-30-12 the Rhode
18 Island itemized deduction amount and the Rhode Island exemption amount as determined in this
19 section.

20 (A) Tax imposed.

21 (1) There is hereby imposed on the taxable income of married individuals filing joint
22 returns and surviving spouses a tax determined in accordance with the following table:

23 If taxable income is:	The tax is:
24 Not over \$53,150	3.75% of taxable income
25 Over \$53,150 but not over \$128,500	\$1,993.13 plus 7.00% of the excess over 26 \$53,150
27 Over \$128,500 but not over \$195,850	\$7,267.63 plus 7.75% of the excess over 28 \$128,500
29 Over \$195,850 but not over \$349,700	\$12,487.25 plus 9.00% of the excess over 30 \$195,850
31 Over \$349,700	\$26,333.75 plus 9.90% of the excess over 32 \$349,700

33 (2) There is hereby imposed on the taxable income of every head of household a tax
34 determined in accordance with the following table:

1	If taxable income is:	The tax is:
2	Not over \$42,650	3.75% of taxable income
3	Over \$42,650 but not over \$110,100	\$1,599.38 plus 7.00% of the excess over
4		\$42,650
5	Over \$110,100 but not over \$178,350	\$6,320.88 plus 7.75% of the excess over
6		\$110,100
7	Over \$178,350 but not over \$349,700	\$11,610.25 plus 9.00% of the excess over
8		\$178,350
9	Over \$349,700	\$27,031.75 plus 9.90% of the excess over
10		\$349,700

11 (3) There is hereby imposed on the taxable income of unmarried individuals (other than
12 surviving spouses and heads of households) a tax determined in accordance with the following
13 table:

14	If taxable income is:	The tax is:
15	Not over \$31,850	3.75% of taxable income
16	Over \$31,850 but not over \$77,100	\$1,194.38 plus 7.00% of the excess over
17		\$31,850
18	Over \$77,100 but not over \$160,850	\$4,361.88 plus 7.75% of the excess over
19		\$77,100
20	Over \$160,850 but not over \$349,700	\$10,852.50 plus 9.00% of the excess over
21		\$160,850
22	Over \$349,700	\$27,849.00 plus 9.90% of the excess over
23		\$349,700

24 (4) There is hereby imposed on the taxable income of married individuals filing separate
25 returns and bankruptcy estates a tax determined in accordance with the following table:

26	If taxable income is:	The tax is:
27	Not over \$26,575	3.75% of taxable income
28	Over \$26,575 but not over \$64,250	\$996.56 plus 7.00% of the excess over \$26,575
29	Over \$64,250 but not over \$97,925	\$3,633.81 plus 7.75% of the excess over
30		\$64,250
31	Over \$97,925 but not over \$174,850	\$6,243.63 plus 9.00% of the excess over
32		\$97,925
33	Over \$174,850	\$13,166.88 plus 9.90% of the excess over
34		\$174,850

1 (5) There is hereby imposed a taxable income of an estate or trust a tax determined in
2 accordance with the following table:

3 If taxable income is:	The tax is:
4 Not over \$2,150	3.75% of taxable income
5 Over \$2,150 but not over \$5,000	\$80.63 plus 7.00% of the excess over \$2,150
6 Over \$5,000 but not over \$7,650	\$280.13 plus 7.75% of the excess over \$5,000
7 Over \$7,650 but not over \$10,450	\$485.50 plus 9.00% of the excess over \$7,650
8 Over \$10,450	\$737.50 plus 9.90% of the excess over \$10,450

9 (6) Adjustments for inflation. The dollars amount contained in paragraph (A) shall be
10 increased by an amount equal to:

- 11 (a) Such dollar amount contained in paragraph (A) in the year 1993, multiplied by;
- 12 (b) The cost-of-living adjustment determined under section (J) with a base year of 1993;
- 13 (c) The cost-of-living adjustment referred to in subparagraph (a) and (b) used in making
14 adjustments to the nine percent (9%) and nine and nine tenths percent (9.9%) dollar amounts shall
15 be determined under section (J) by substituting "1994" for "1993."

16 (B) Maximum capital gains rates

17 (1) In general If a taxpayer has a net capital gain for tax years ending prior to January 1,
18 2010, the tax imposed by this section for such taxable year shall not exceed the sum of:

19 (a) 2.5 % of the net capital gain as reported for federal income tax purposes under section
20 26 U.S.C. 1(h)(1)(a) and 26 U.S.C. 1(h)(1)(b).

21 (b) 5% of the net capital gain as reported for federal income tax purposes under 26 U.S.C.
22 1(h)(1)(c).

23 (c) 6.25% of the net capital gain as reported for federal income tax purposes under 26
24 U.S.C. 1(h)(1)(d).

25 (d) 7% of the net capital gain as reported for federal income tax purposes under 26 U.S.C.
26 1(h)(1)(e).

27 (2) For tax years beginning on or after January 1, 2010 the tax imposed on net capital
28 gain shall be determined under subdivision 44-30-2.6(c)(2)(A).

29 (C) Itemized deductions.

30 (1) In general For the purposes of section (2) "itemized deductions" means the amount of
31 federal itemized deductions as modified by the modifications in section 44-30-12.

32 (2) Individuals who do not itemize their deductions In the case of an individual who does
33 not elect to itemize his deductions for the taxable year, they may elect to take a standard
34 deduction.

1 (3) Basic standard deduction. The Rhode Island standard deduction shall be allowed in
2 accordance with the following table:

3 Filing status	Amount
4 Single	\$5,350
5 Married filing jointly or qualifying widow(er)	\$8,900
6 Married filing separately	\$4,450
7 Head of Household	\$7,850

8 (4) Additional standard deduction for the aged and blind. An additional standard
9 deduction shall be allowed for individuals age sixty-five (65) or older or blind in the amount of
10 \$1,300 for individuals who are not married and \$1,050 for individuals who are married.

11 (5) Limitation on basic standard deduction in the case of certain dependents. In the case
12 of an individual to whom a deduction under section (E) is allowable to another taxpayer, the basic
13 standard deduction applicable to such individual shall not exceed the greater of:

- 14 (a) \$850;
- 15 (b) The sum of \$300 and such individual's earned income;
- 16 (c) Certain individuals not eligible for standard deduction.

17 In the case of:

- 18 (a) A married individual filing a separate return where either spouse itemizes deductions;
- 19 (b) Nonresident alien individual;
- 20 (c) An estate or trust;

21 The standard deduction shall be zero.

22 (7) Adjustments for inflation. Each dollars amount contained in paragraphs (3), (4) and
23 (5) shall be increased by an amount equal to:

- 24 (a) Such dollar amount contained in paragraphs (3), (4) and (5) in the year 1988,
25 multiplied by
- 26 (b) The cost-of-living adjustment determined under section (J) with a base year of 1988.
- 27 (D) Overall Limitation on Itemized Deductions

28 (1) General rule.

29 In the case of an individual whose adjusted gross income as modified by section 44-30-12
30 exceeds the applicable amount, the amount of the itemized deductions otherwise allowable for the
31 taxable year shall be reduced by the lesser of:

- 32 (a) Three percent (3%) of the excess of adjusted gross income as modified by section 44-
33 30-12 over the applicable amount; or
- 34 (b) Eighty percent (80%) of the amount of the itemized deductions otherwise allowable

1 for such taxable year.

2 (2) Applicable amount.

3 (a) In general.

4 For purposes of this section, the term "applicable amount" means \$156,400 (\$78,200 in
5 the case of a separate return by a married individual)

6 (b) Adjustments for inflation. Each dollar amount contained in paragraph (a) shall be
7 increased by an amount equal to:

8 (i) Such dollar amount contained in paragraph (a) in the year 1991, multiplied by

9 (ii) The cost-of-living adjustment determined under section (J) with a base year of 1991.

10 (3) Phase-out of Limitation.

11 (a) In general.

12 In the case of taxable year beginning after December 31, 2005, and before January 1,
13 2010, the reduction under section (1) shall be equal to the applicable fraction of the amount which
14 would be the amount of such reduction.

15 (b) Applicable fraction. For purposes of paragraph (a), the applicable fraction shall be
16 determined in accordance with the following table: For taxable years beginning in calendar year

17 The applicable fraction is

18 2006 and 2007 $\frac{2}{3}$

19 2008 and 2009 $\frac{1}{3}$

20 (E) Exemption Amount

21 (1) In general.

22 Except as otherwise provided in this subsection, the term "exemption amount" mean
23 \$3,400.

24 (2) Exemption amount disallowed in case of certain dependents. In the case of an
25 individual with respect to whom a deduction under this section is allowable to another taxpayer
26 for the same taxable year, the exemption amount applicable to such individual for such
27 individual's taxable year shall be zero.

28 (3) Adjustments for inflation. The dollar amount contained in paragraph (1) shall be
29 increased by an amount equal to:

30 (a) Such dollar amount contained in paragraph (1) in the year 1989, multiplied by

31 (b) The cost-of-living adjustment determined under section (J) with a base year of 1989.

32 (4) Limitation.

33 (a) In general.

34 In the case of any taxpayer whose adjusted gross income as modified for the taxable year

1 exceeds the threshold amount shall be reduced by the applicable percentage.

2 (b) Applicable percentage. In the case of any taxpayer whose adjusted gross income for
3 the taxable year exceeds the threshold amount, the exemption amount shall be reduced by two (2)
4 percentage points for each \$2,500 (or fraction thereof) by which the taxpayer's adjusted gross
5 income for the taxable year exceeds the threshold amount. In the case of a married individual
6 filing a separate return, the preceding sentence shall be applied by substituting "\$1,250" for
7 "\$2,500." In no event shall the applicable percentage exceed one hundred percent (100%).

8 (c) Threshold Amount. For the purposes of this paragraph, the term "threshold amount"
9 shall be determined with the following table:

10 Filing status	Amount
11 Single	\$156,400
12 Married filing jointly of qualifying widow(er)	\$234,600
13 Married filing separately	\$117,300
14 Head of Household	\$195,500

15 (d) Adjustments for inflation. Each dollars amount contain in paragraph (b) shall be
16 increased by an amount equal to:

- 17 (i) Such dollar amount contained in paragraph (b) in the year 1991, multiplied by
- 18 (ii) The cost-of-living adjustment determined under section (J) with a base year of 1991.
- 19 (5) Phase-out of Limitation.

20 (a) In general.

21 In the case of taxable years beginning after December 31, 2005, and before January 1,
22 2010, the reduction under section 4 shall be equal to the applicable fraction of the amount which
23 would be the amount of such reduction.

24 (b) Applicable fraction. For the purposes of paragraph (a), the applicable fraction shall
25 be determined in accordance with the following table:

26 For taxable years beginning in calendar year	
27 The applicable fraction is	
28 2006 and 2007	2/3
29 2008 and 2009	1/3

30 (F) Alternative Minimum Tax

31 (1) General rule. –

32 There is hereby imposed (in addition to any other tax imposed by this subtitle) a tax equal
33 to the excess (if any) of:

34 (a) The tentative minimum tax for the taxable year, over

1 (b) The regular tax for the taxable year.

2 (2) The tentative minimum tax for the taxable year is the sum of:

3 (a) 6.5 percent of so much of the taxable excess as does not exceed \$175,000, plus

4 (b) 7.0 percent of so much of the taxable excess above \$175,000.

5 (3) The amount determined under the preceding sentence shall be reduced by the

6 alternative minimum tax foreign tax credit for the taxable year.

7 (4) Taxable excess. - For the purposes of this subsection the term "taxable excess" means

8 so much of the federal alternative minimum taxable income as modified by the modifications in

9 section 44-30-12 as exceeds the exemption amount.

10 (5) In the case of a married individual filing a separate return, subparagraph (2) shall be

11 applied by substituting "\$87,500" for \$175,000 each place it appears.

12 (6) Exemption amount. For purposes of this section "exemption amount" means:

13 Filing status	Amount
14 Single	\$39,150
15 Married filing jointly or qualifying widow(er)	\$53,700
16 Married filing separately	\$26,850
17 Head of Household	\$39,150
18 Estate or trust	\$24,650

19 (7) Treatment of unearned income of minor children

20 (a) In general. In the case of a minor child, the exemption amount for purposes of section

21 (6) shall not exceed the sum of:

- 22 (i) Such child's earned income, plus
- 23 (ii) \$6,000.

24 (8) Adjustments for inflation. The dollar amount contained in paragraphs (6) and (7) shall

25 be increased by an amount equal to:

26 (a) Such dollar amount contained in paragraphs (6) and (7) in the year 2004, multiplied

27 by

28 (b) The cost-of-living adjustment determined under section (J) with a base year of 2004.

29 (9) Phase-out.

30 (a) In general. The exemption amount of any taxpayer shall be reduced (but not below

31 zero) by an amount equal to twenty-five percent (25%) of the amount by which alternative

32 minimum taxable income of the taxpayer exceeds the threshold amount.

33 (b) Threshold amount. For purposes of this paragraph, the term "threshold amount" shall

34 be determined with the following table:

1	Filing status	Amount
2	Single	\$123,250
3	Married filing jointly or qualifying widow(er)	\$164,350
4	Married filing separately	\$82,175
5	Head of Household	\$123,250
6	Estate or Trust	\$82,150

7 (c) Adjustments for inflation Each dollar amount contained in paragraph (9) shall be
8 increased by an amount equal to:

- 9 (i) Such dollar amount contained in paragraph (9) in the year 2004, multiplied by
- 10 (ii) The cost-of-living adjustment determined under section (J) with a base year of 2004.
- 11 (G) Other Rhode Island Taxes

12 (1) General rule. - There is hereby imposed (in addition to any other tax imposed by this
13 subtitle) a tax equal to twenty-five percent (25%) of:

- 14 (a) The Federal income tax on lump-sum distributions.
- 15 (b) The Federal income tax on parents' election to report child's interest and dividends.
- 16 (c) The recapture of Federal tax credits that were previously claimed on Rhode Island
17 return.

18 (H) Tax for children under 18 with investment income

19 (1) General rule. - There is hereby imposed a tax equal to twenty-five percent (25%) of:

- 20 (a) The Federal tax for children under the age of 18 with investment income.

21 (I) Averaging of farm income

22 (1) General rule. - At the election of an individual engaged in a farming business or
23 fishing business, the tax imposed in section 2 shall be equal to twenty-five percent (25%) of:

- 24 (a) The Federal averaging of farm income as determined in IRC section 1301.

25 (J) Cost-of-Living Adjustment

26 (1) In general. The cost-of-living adjustment for any calendar year is the percentage (if
27 any) by which:

- 28 (a) The CPI for the preceding calendar year exceeds
- 29 (b) The CPI for the base year.

30 (2) CPI for any calendar year. For purposes of paragraph (1), the CPI for any calendar
31 year is the average of the Consumer Price Index as of the close of the twelve (12) month period
32 ending on August 31 of such calendar year.

33 (3) Consumer Price Index For purposes of paragraph (2), the term "consumer price
34 index" means the last consumer price index for all urban consumers published by the department

1 of labor. For purposes of the preceding sentence, the revision of the consumer price index which
2 is most consistent with the consumer price index for calendar year 1986 shall be used.

3 (4) Rounding.

4 (a) In general. If any increase determined under paragraph (1) is not a multiple of \$50,
5 such increase shall be rounded to the next lowest multiple of \$50.

6 (b) In the case of a married individual filing a separate return, subparagraph (a) shall be
7 applied by substituting "\$25" for \$50 each place it appears.

8 (K) Credits against tax. - For tax years beginning on or after January 1, 2001, a taxpayer
9 entitled to any of the following federal credits enacted prior to January 1, 1996 shall be entitled to
10 a credit against the Rhode Island tax imposed under this section:

11 (1) [Deleted by P.L. 2007, ch. 73, art. 7, section 5_.

12 (2) Child and dependent care credit;

13 (3) General business credits;

14 (4) Credit for elderly or the disabled;

15 (5) Credit for prior year minimum tax;

16 (6) Mortgage interest credit;

17 (7) Empowerment zone employment credit;

18 (8) Qualified electric vehicle credit.

19 (L) Credit Against Tax for Adoption. - For tax years beginning on or after January 1,
20 2006, a taxpayer entitled to the federal adoption credit shall be entitled to a credit against the
21 Rhode Island tax imposed under this section if the adopted child was under the care, custody, or
22 supervision of the Rhode Island department of children, youth and families prior to the adoption.

23 (M) The credit shall be twenty-five percent (25%) of the aforementioned federal credits
24 provided there shall be no deduction based on any federal credits enacted after January 1, 1996,
25 including the rate reduction credit provided by the federal Economic Growth and Tax
26 Reconciliation Act of 2001 (EGTRRA). In no event shall the tax imposed under this section be
27 reduced to less than zero. A taxpayer required to recapture any of the above credits for federal tax
28 purposes shall determine the Rhode Island amount to be recaptured in the same manner as
29 prescribed in this subsection.

30 (N) Rhode Island Earned Income Credit

31 (1) In general. A taxpayer entitled to a federal earned income credit shall be allowed a
32 Rhode Island earned income credit equal to twenty-five percent (25%) of the federal earned
33 income credit. Such credit shall not exceed the amount of the Rhode Island income tax.

34 (2) Refundable portion. In the event the Rhode Island earned income credit allowed

1 under section (J) exceeds the amount of Rhode Island income tax, a refundable earned income
2 credit shall be allowed.

3 (a) For purposes of paragraph (2) refundable earned income credit means fifteen percent
4 (15%) of the amount by which the Rhode Island earned income credit exceeds the Rhode Island
5 income tax.

6 (O) The tax administrator shall recalculate and submit necessary revisions to paragraphs
7 (A) through (J) to the general assembly no later than February 1, 2010 and every three (3) years
8 thereafter for inclusion in the statute.

9 (P) In addition to the taxes levied under this chapter, for tax years beginning January 1,
10 2010 and ending before January 1, 2013, taxpayers reporting annual taxable income, as modified
11 by section 44-30-12 for resident taxpayers and by section 44-30-32 for nonresident taxpayers, of
12 more than five hundred thousand dollars (\$500,000) shall pay an additional tax of three percent
13 (3%) on that part of their income which exceeds five hundred thousand dollars (\$500,000). This
14 additional tax levy shall be deposited in a restricted revenue account and shall be used to reduce
15 the tuition paid by Rhode Island residents at all state run colleges and universities.

16 SECTION 2. This act shall take effect upon passage and shall apply for tax years
17 beginning January 1, 2010 and ending before January 1, 2013.

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EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF
A N A C T
RELATING TO TAXATION - PERSONAL INCOME TAX

1 This act would provide that for tax years beginning January 1, 2010 and ending before
2 January 1, 2013, taxpayers with taxable income of more than five hundred thousand dollars
3 (\$500,000) would pay an additional tax of three percent (3%) on that part of their income which
4 exceeds five hundred thousand dollars (\$500,000). This additional tax levy would be used to
5 reduce tuition at in state colleges and universities for in state students.

6 This act would take effect upon passage and would apply for tax years beginning January
7 1, 2010 and ending before January 1, 2013.

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