1800 Mineral Spring Ave
Suite 271
North Providence, RI 02904
401-544-6797
NFIB.com

Testimony of
Christopher Carlozzi, NFIB State Director
Regarding House Bill No. 7225 Article 6 Section 12
An Act Making Appropriations for the Support of the State for the Fiscal Year Ending June 30, 2025
Relating to the Pass-Through Entity Tax and the Business Corporations Minimum Tax
February 15, 2024

Chairman Abney and Members of the House Committee on Finance:

My name is Christopher Carlozzi. I am the Rhode Island State Director for NFIB. A non-profit, non-partisan organization, NFIB is the nation's and our state's largest small business advocacy group. In Rhode Island, NFIB represents hundreds of small and independent business owners involved in all types of industry, including manufacturing, retail, wholesale, service, and agriculture. The average NFIB member has five employees and annual gross revenues of about $450,000. NFIB represents the small Main Street business owners from throughout Rhode Island. On behalf of those small and independent business employers, we support lowering the state minimum corporate tax to $350 but oppose a reduction in the pass-through entity tax deduction.

Current law requires that corporations pay a minimum business corporation tax of $400 annually without regard to whether the corporation actually made a profit during the year. This article will lower the current tax by $50 providing modest relief for small businesses. The current minimum tax of $400 is unfair to struggling business enterprises, discourages entrepreneurs, and has a disproportionate negative impact on smaller businesses. When comparing to neighboring states, Rhode Island's current minimum tax may be below the $456 Massachusetts tax, but still higher than the $250 minimum in Connecticut. Since small entrepreneurial businesses are the predominant creator of new jobs and the driver of economic growth in Rhode Island, it would make sense to encourage expansion and entrepreneurship by lowering this unfair provision in the state tax laws.

In recent years, Rhode Island recognized the inequity of taxing small businesses whether or not they make a profit by lowering the minimum tax to the current level. This proposed change to $350 will constitute another step toward a more equitable tax code.

NFIB strongly opposes lowering the full deduction amount for the elective pass-through entity tax, to 90 percent. What is alternately also known as the state and local tax (SALT) workaround, allowed s corporations, partnerships, LLCs, sole proprietorships, and other pass-through small business to fully deduct their states and local taxes through this newly devised tax fix.

Unfortunately for taxpayers in states like Rhode Island with higher state and local tax liabilities, the 2017 Tax Cuts and Jobs Act placed a $10,000 cap on the amount of state and local taxes that could be deducted on federal tax returns. To remedy the impact on small businesses and residents, the General Assembly included a provision in the FY2020 state budget to allow taxpayers to utilize an optional pass-through entity tax (PTET) which Governor Raimondo signed. This new optional tax provided relief to pass-through S corporations, partnerships, and LLCs facing the newly imposed federal tax deduction cap, allowing them to take a credit on their state income taxes.

As of December 2023, thirty-six states allow for some level of pass-through entity tax fix. When this tax fix was authorized in 2019 Internal Revenue Data from 2016 showed thirty-three percent of Rhode Island taxpayers used the SALT deduction, with the average claim being $12,472. This is important to small businesses because the vast majority file as pass-through entities for tax purposes. Their "income" is money used to reinvest in the business through the purchase of new equipment, updating their facilities, hiring additional workers, and investing in their property. The funds are used to grow the state's economy and create new jobs, which is why it is crucial this deduction remains intact at 100%.

Rhode Island is perceived as a high tax state. Currently, the Tax Foundation ranks Rhode Island as 41st worst in the nation on their 2024 State Business Tax Climate Index. Factored into that ranking the state is listed as 31st worst for income taxes and 35th worst for property taxes, two of the categories of taxation allowed under the state and local tax deduction. This change to 90 percent would be a step in the wrong direction making the states slightly less competitive, and less attractive for entrepreneurship.

On behalf of the state's small businesses, we ask that you reject the provisions decreasing the SALT cap fix to 90% and urge you to support a reduction in the minimum corporate tax to $350. Thank you.