



February 15, 2024

Honorable Marvin Abney
Chairman, House Finance Committee
State House
Providence, RI 02903

RE: H.7225 – Article 6 Section 12 – Government Reform and Reorganization – Pass Through Entities
Tax Credit

Dear Chairman Abney and Committee Members,

The undersigned members of the Rhode Island Business Coalition would like to express our opposition to the Governor's proposal to raise taxes on pass-through entities as proposed in Article 6 Section 12.

Article 6, Section 12 calls for a reduction in the elective tax credit from 100% to 90% of the taxes paid. The Governor estimates that this change will raise state revenues by \$8.1 million in FY2025 and \$16.5 million in FY2026.

This change affects S corporations, partnerships, limited liability companies treated as S corporations and select trusts that elect to pay taxes as a pass-through entity (PTE). These entities pay state income taxes at the entity level and then deduct the amounts paid when determining federal ordinary income, thus creating a deduction for state income taxes that is not subject to the \$10,000 cap on state and local tax deductions that was established under the Tax Cuts and Jobs Act of 2017.

To be clear, this proposed reduction in the elective tax credit will not only result in higher state taxes for these businesses (often small), it could increase their federal tax liability as well.

For these reasons, we ask you to reject the Governor's proposed change to tax law. Thank you for your consideration of our concerns.

Sincerely,

Associated Builders and Contractors, Rhode Island

East Greenwich Chamber of Commerce

Greater Newport Chamber of Commerce

National Federation of Independent Business

North Kingstown Chamber of Commerce

Rhode Island Association of REALTORS®

Rhode Island Beverage Association

Rhode Island Business Group on Health

Rhode Island Hospitality Association

Rhode Island Manufacturers Association

Rhode Island Marine Trades Association

Rhode Island Mortgage Bankers Association

Rhode Island Partnership for Home Care

Rhode Island Society of Certified Public Accountants

Rhode Island Staffing Association

Sustainable Benefits Strategies, LLC

The Rhode Island Business Coalition represents 50 industries and 6,280 businesses that employ 231,200 people throughout Rhode Island.