



Rhode Island Department of Revenue

Division of Taxation

Via Electronic Mail

May 13, 2025

The Honorable Marvin L. Abney
Chair, House Committee on Finance
Rhode Island State House
Providence, RI 02903

RE: Letter Regarding House Bill 5402 – An Act Relating to Taxation – Business Corporation Tax – Affordable Housing Tax Credit Act

Dear Chair Abney:

I am writing on behalf of the Rhode Island Department of Revenue, Division of Taxation (“Division”), to: i) express concerns regarding issues with proposed House Bill 5402 as currently drafted; ii) explain the background and current statutory context in order to clarify the intended and unintended consequences of this bill; and iii) make recommendations and request your support in implementing those recommendations.

This letter is not intended as a position in support of or opposition to the bill, but only as recommendations on drafting to provide clarity in the bill and to aid tax administration and compliance.

As you know, this bill would amend the Rhode Island General Laws by adding three sections: § 44-11-46, entitled “Affordable housing tax credit act,” § 44-30-8, entitled “Exemption for the sale of deed restricted affordable property,” and § 44-5-89, entitled “Tax valuation freeze on newly renovated affordable rental housing properties.” The bill would also amend R.I. Gen. Laws § 44-18-30 to add a sales and use tax exemption for the gross receipts “[f]rom the sale and from the storage, use, or other consumption in this state of materials used in the renovations of affordable rental housing properties.” Per the Explanation by the Legislative Council, the intent of the bill is to create an affordable housing business tax credit, eliminate sales and use tax on any materials purchased for use in the renovation of affordable rental housing, eliminate the income tax derived from the sale of any real property deed-restricted as affordable housing, and establish a ten-year freeze on the tax valuation of newly renovated affordable rental housing. The bill’s effective date is upon passage.

There are several potential issues with the bill that impact tax administration, including, but not limited to:

- While the bill’s proposed purpose is, in part, to create an affordable housing business tax credit, the Fiscal Year 2024 budget included the Rhode Island Low-Income Housing Tax Credit Act in Chapter 71 of Title 44, which provides for a low-income housing tax credit against, in part, Chapter 44-11 (“Business Corporation Tax”). As a result, the provisions proposed in the bill may be duplicative and/or have unintended consequences in relation to the Rhode Island Low-Income Housing Tax Credit Act. This should be studied to ensure proper administration and consistency in terms to avoid any unintended impacts.

- The addition of a sales and use tax exemption for materials used in renovations of affordable rental housing properties is broad and vague. There are no definitions or parameters for what would be “affordable rental housing properties” and as such, the exemption would not be administrable. Further, this exemption could be duplicative of other sales and use tax exemptions in Chapter 44-18 for which there are established definitions and parameters for meeting exemption requirements. This could result in broad application and potential for fraud.
- The bill’s proposed § 44-30-8 includes language that exempts income derived from the sale of residential property with an issued occupancy permit on or after January 1, 1995, and with a covenant as set forth in the bill. This is overly inclusive as to all income, there is no definition or limitation on “derived,” and this has a potential retroactive impact, which could result in requests for refund and potential fraudulent claims. This would need to be studied further to consider impacts on Title 44 and revenues due to the breadth of the language.
- The bill is effective upon passage. However, the Division respectfully requests that the effective date be prospective and for tax years beginning on or after January 1, 2026, to allow time for implementation of the new tax, which will require form and system updates.

The Division takes no position with respect to the remainder of the proposed legislation. Rather, the Division is concerned solely with the issues of clarity, tax compliance, and tax administration. As such, the Division respectfully suggests that the bill be redrafted for clarity.

I look forward to working with you to address the issues raised in this letter and appreciate your consideration.

Very truly yours,



Neena S. Savage
Tax Administrator

cc: The Honorable Members of the House Committee on Finance (via:
HouseFinance@rilegislature.gov)
 The Honorable David J. Place (rep-place@rilegislature.gov)
 Nicole McCarty, Esquire, Chief Legal Counsel to the Speaker of the House
 Lynne Urbani, Director of House Policy
 Thomas A. Verdi, Director, Department of Revenue