



# OFFICE OF MANAGEMENT & BUDGET

**Brian M. Daniels, Director**

One Capitol Hill  
Providence, RI 02908-5890

Office: (401) 574-8430  
Fax: (401) 222-6436

## MEMORANDUM

**To:** The Honorable Louis P. DiPalma, Chairman, Senate Committee on Finance  
The Honorable Marvin L. Abney, Chairman, House Committee on Finance

**From:** Brian Daniels, Director Office of Management and Budget *B. Daniels*

**Date:** March 18, 2026

**Subject:** March 3, 2026 House Finance Follow-up

I am writing to provide clarification and additional documentation related to questions posed by members of the House Committee on Finance at the hearing held on March 3, 2025, on the topic of House Bill No. 7127, Article 5, Sections 2 and 6, specifically regarding the H.R. 1 impacts in the outyears as well as profiles of social security recipients who continue to pay taxes. As always, if you require more information or need clarification on what has been presented below, please feel free to reach out to my team and me.

### Section 2: H.R. 1 Impacts in the Outyears

*Representative Tanzi: What are the impacts of H.R. 1 in the outyears?*

The Governor's budget recommendation and outyear forecast include estimates of the direct, indirect, and discretionary policy impacts of recent federal legislation referred to as H.R. 1 and other recent federal policy changes impacting the availability and administration of health benefit programs. These impacts are summarized in the table below.

### Recommended and Forecast Budget Impacts and Policy Responses to H.R. 1 (\$, Millions)

Category	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
General Tax Impacts	\$ (34.7)	\$ (36.4)	\$ (20.6)	\$ (15.2)	\$ (9.3)	\$ (10.3)
Healthcare Tax Impacts	\$ -	\$ -	\$ (12.2)	\$ (31.9)	\$ (60.3)	\$ (104.4)
R&D Decoupling	\$ 22.6	\$ 22.6	\$ 10.9	\$ 8.0	\$ 2.8	\$ 2.0
<i>Revenue Subtotal</i>	<i>\$ (12.1)</i>	<i>\$ (13.8)</i>	<i>\$ (21.9)</i>	<i>\$ (39.1)</i>	<i>\$ (66.8)</i>	<i>\$ (112.7)</i>
SDP Reduction	\$ -	\$ -	\$ -	\$ (11.4)	\$ (21.6)	\$ (30.8)
SNAP Admin & Benefits	\$ -	\$ 9.3	\$ 34.5	\$ 42.2	\$ 42.7	\$ 43.2
PER Reduction Strategies	\$ -	\$ 4.1	\$ 3.7	\$ 3.7	\$ 3.7	\$ 3.7
Compliance and Community Engagement Response	\$ -	\$ 14.3	\$ 11.3	\$ 8.1	\$ 6.4	\$ 6.1
Policy Responses for Uninsured	\$ -	\$ 14.1	\$ 22.6	\$ 23.6	\$ 24.6	\$ 25.1
<i>Expenditure Subtotal</i>	<i>\$ -</i>	<i>\$ 41.8</i>	<i>\$ 72.1</i>	<i>\$ 66.2</i>	<i>\$ 55.8</i>	<i>\$ 47.3</i>
<b>Total Impact</b>	<b>\$ (12.1)</b>	<b>\$ (55.6)</b>	<b>\$ (94.0)</b>	<b>\$ (105.3)</b>	<b>\$ (122.6)</b>	<b>\$ (160.0)</b>

The direct, indirect, and discretionary policy responses to H.R. 1 represent a significant portion of expenditure and revenue changes in the Governor's budget recommendation and five-year forecast. **Considering the combined revenue and expenditure impacts, the net fiscal effect is a \$12.1 million increase to the deficit in FY 2026, growing to a \$160.0 million increase by FY 2031.**

Net revenue impacts attributable to H.R. 1 - including the Governor's recommendation to partially decouple from certain federal provisions - result in a revenue loss of \$12.1 million in FY 2026, increasing to a \$112.7 million loss by FY 2031.

With respect to revenues, the table reflects impacts beginning in state fiscal year 2026 and thereafter, even though certain provisions of H.R. 1 have retroactive effects reaching back to tax year 2022. Legislative action taken by the Rhode Island General Assembly in the FY 2026 enacted budget to decouple Rhode Island from federal changes generally prevented these retroactive provisions from affecting state tax revenues in TY 2025 and prior years. The Governor's recommendation would make decoupling permanent with respect to research and development (R&D) expensing, but some other general tax impacts remain.

Health care provider tax impacts are shown separately in the table. Like many states, Rhode Island imposes taxes on certain health care providers, including managed care organizations and hospitals. H.R. 1 imposes several outyear limitations on these taxes; however, for purposes of the five-year forecast, the most significant provision is the phased reduction in the maximum allowable provider tax rate. This change results in a revenue loss of \$12.2 million beginning in FY 2028, growing to more than \$100 million by FY 2031.

Expenditure impacts are driven primarily by changes affecting Rhode Island's Medical Assistance Program (Medicaid) and the state-administered Supplemental Nutrition Assistance Program (SNAP). The table summarizes the major categories of new expenditures associated with program administration, compliance activities, changes in state and federal cost-sharing requirements under both programs, and discretionary responses related to these programs.

In Medicaid, the state is expected to experience some offsetting savings related to caseload reductions. More restrictive eligibility requirements are expected to result in the loss of benefits for thousands of enrolled individuals. The associated expenditure reductions are not reflected in the table above, as much of the near-term impact has already been incorporated into the Caseload Estimating Conference forecast.

Total expenditures associated with the direct, indirect, and discretionary responses to H.R. 1 are estimated at \$41.8 million in FY 2027, growing to \$47.3 million by FY 2031.

H.R. 1 imposes new constraints on the State Directed Payment (SDP) program. Rhode Island uses the SDP program to provide supplemental hospital stabilization payments administered through managed care organizations. Under prior policy, states could use SDPs to increase hospital Medicaid payments toward parity with commercial insurance rates; H.R. 1 limits this flexibility by requiring SDP payment levels to align more closely with Medicare rates. Although Rhode Island's existing SDP arrangement is expected to be treated as grandfathered for the near term, phased compliance with the new federal limits will begin impacting the state in FY

2029. As a result, general revenue expenditures are projected to decline by \$11.4 million beginning in FY 2029, growing to \$30.8 million by FY 2031. The corresponding reduction in hospital revenues will be larger when accounting for the loss of associated federal matching funds.

As noted above in the expenditure forecast portion of this document, H.R. 1 imposes increased cost sharing on the Supplemental Nutrition Assistance Program (SNAP) with respect to administration and benefits. State cost-sharing percentages for SNAP benefits will be determined based on future payment error rate (PER) calculations, so this forecast uses an assumption of 7.5 percent to provide an order-of-magnitude estimate of the impact. Given the incentives to reduce the PER and minimize the state cost-share burden, this forecast also reflects the continuation of personnel and technology expenses aimed at reducing the PER.

The forecast also includes expenditures related to maintaining compliance with new eligibility redetermination procedures required by H.R. 1, which include maximizing compliance with the community engagement, or so-called “work requirements,” provisions of H.R. 1. This includes operational needs such as IT and systems programming, as well as programmatic investments in tools and strategies to assist Rhode Islanders in maintaining compliance with these requirements.

Finally, caseload projections assume that a large number of Rhode Islanders will lose health benefits coverage as a result of changes to Medicaid under H.R. 1, as well as the expiration of enhanced federal advance premium tax credits under current law. For this reason, the forecast includes the continuation of programs recommended in the Governor’s budget submission that are intended to mitigate the potential impacts of Rhode Islanders losing health care coverage. These mitigation strategies include enhanced state-funded health insurance marketplace subsidies and increased funding for uncompensated care through the Disproportionate Share Hospital (DSH) program.

This remains an evolving policy area and is subject to ongoing federal guidance, rulemaking, and potential legislative action. To the extent that federal authorities and the United States Congress take steps to modify, delay, or clarify the policies enacted under H.R. 1, the fiscal impacts reflected in this forecast may change materially. Accordingly, the estimates presented here should be viewed as subject to revision as additional information becomes available.

## **Section 6: Social Security**

*Representative Tanzi: Describe the profiles of Social Security benefits who continue to pay taxes.*

See below for an example of a taxpayer paying tax on Social Security income, developed by the Office of Revenue Analysis. This example was developed by consulting actual income tax filing data but is a hypothetical example not representing an actual taxpayer. This taxpayer is a married couple filing jointly, with most of their income coming from sources other than Social Security. Their total adjusted gross income (AGI) of \$200,000 means they are currently unable to claim the modification to eliminate Social Security from taxation. This hypothetical couple would be able to claim this modification in tax year 2028 (the second year of the phase out) under the Governor’s proposal.

Two things to note: under Rhode Island law, only Social Security income that is taxable at the federal level is included in AGI and taxed by the state. For higher-income taxpayers, 85% of their Social Security income is taxable (represented by the \$32,200 figure). Also, the estimated amount of taxes paid on their Social Security income is calculated by applying this couple's effective tax rate to their taxable Social Security income. In reality, all income is combined before the state's tax brackets are applied, making this a theoretical calculation. The effective tax rate is calculated by divided the total state tax liability by adjusted gross income.

**Social Security Tax Example (Joint Filer)**

Total Social Security Income	\$37,800
Taxable Social Security Income	\$32,200
Other Income	\$167,800
Total Adjusted Gross Income (AGI)	\$200,000
Standard Deduction	\$22,400
Personal Exemptions (one for each spouse)	\$10,500
Taxable Income (AGI minus deduction/exemptions)	\$167,000
Total RI Income Tax	\$7,138
Effective RI Income Tax Rate	3.6%
Estimated RI Taxes Paid on Social Security Income	\$1,149

cc: Members of the House Committee on Finance  
Sharon Reynolds Ferland, House Fiscal Advisor  
Christopher O'Brien, Committee Clerk