



May 7, 2026

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

Re. H7313, An Act Relating to Taxation – Personal Income Tax

Dear Chairman Abney,

On behalf of the Rhode Island Society of Certified Public Accountants (RISCPA), I respectfully submit this letter regarding fiscal and competitiveness concerns related to House Bill 7313, which proposes to establish a 3% surtax on high-income earners, including pass-through entities.

RISCPA represents more than 1,000 CPAs and accounting professionals across the state. As practitioners working closely with taxpayers, business owners, and financial advisors throughout the region, we see firsthand how tax policy influences economic behavior. We believe it is important to carefully consider the fiscal and economic implications of this proposal.

We are opposed to the imposition of a 3% surtax tax due to its negative impact on net working capital used for expansion, hiring, equipment purchases, technology upgrades, and the effect of draining reserves during periods of economic uncertainty.

My comments focus specifically on how the proposed 3% surtax would affect Rhode Island business owners operating as S corporations, partnerships, and limited liability companies, referred to as pass-through entities.

First, it is important to understand how pass-through businesses are taxed.

These entities do not pay income tax at the entity level. Instead, income passes through to the individual owner's personal return. The owner owes tax on net income regardless of whether cash is distributed.

That distinction is significant.

If a Rhode Island pass-through business generates \$2 million in net income, the combined federal and Rhode Island tax liability exceeds \$800,000 based on a federal income tax rate of 37% and RI income tax rate of 5.99%. That liability is paid by the individual owner, typically through distributions from the business. This leaves less working capital in the business to hire employees, provide employees with better benefits, make improvements to the business or expand their business.

After tax, approximately \$1.2 million remains. However, that amount is not personal disposable income. This represents the profits retained by the business and may not be available cash. This is cash that needs to be used to run the business and make investments into the business but also to pay debt. Debt repayment is not a deductible expense, so it is not deducted from the \$2 million in net income.

Higher marginal tax rates therefore reduce the capital available for Rhode Island-based growth.

This creates an unusual dynamic in which pass-through business owners could face a higher top tax rate than C corporations, which are how most large publicly traded businesses are formed.

Finally, Rhode Island already relies heavily on individual income tax revenue. According to the Rhode Island Public Expenditure Council, Rhode Island ranked 18th highest nationally in per capita state and local revenue collections based on 2023 data — prior to the proposed increase.

This proposed tax increase reduces business liquidity, limits reinvestment, and weakens Rhode Island's competitiveness — potentially encouraging existing businesses to relocate and discouraging prospective businesses from establishing here.

Pass-through income is taxed regardless of whether it is distributed. Increased marginal rates directly reduce retained earnings — the primary source of capital that small and mid-sized businesses rely upon to grow, hire, and invest within Rhode Island.

We respectfully urge the Committee to reject the surtax proposal as it restricts Rhode Island capital formation, impacts expansion decisions, and may negatively impact long-term economic growth within the State.

We appreciate the Committee's careful consideration of this issue and stand ready to provide additional data or practitioner insight as deliberations continue.

Sincerely,

Brenda Russell, CPA
Tax Committee
Rhode Island Society of Certified Public Accountants

cc. House Finance Committee members