Revenues Changes

The Governor recommended $27.1 million and $336.9 million more general revenues than estimated at the November 2025 Revenue Estimating Conference for FY 2026 and FY 2027, respectively. He also recommended internal fund transfers for FY 2026 that would increase resources available for expenditure from general revenues by $6.3 million. The May 2026 Revenue Estimating Conference increased the FY 2026 estimates by $154.6 million to $5,950.4 million and included $5,785.4 million for FY 2027. The Budget includes total FY 2026 revenues of $6,084.5 million and $6,080.4 million for FY 2027. The items are explained in the pages that follow.

Taxes

- ***Research and Development Tax Provisions.*** H.R. 1 reestablished the ability of businesses to fully expense domestic research and development costs beginning in tax year 2025. Since 2022, federal law has required amortizing those expenses over five years. Rhode Island's tax begins with federal taxable income, meaning it would be coupled with this new provision absent any changes. The FY 2026 enacted budget proactively decoupled the state from any tax year 2025 or earlier provisions that may be enacted after the budget was adopted, requiring their analysis for future action.

The Department of Revenue's October 2025 report on the impacts of H.R. 1's tax provisions identified a revenue loss of $22.6 million for FY 2026 and FY 2027 from the research and development expensing provision as it applies to tax year 2026 and later. These losses were incorporated into the November 2025 consensus revenue estimates, which must be based on current law. The Budget includes the Governor's proposal to decouple the state from federal law beginning in tax year 2026, while maintaining the current five-year expensing practice. The Budget recognizes the $22.6 million in revenues for both FY 2026 and FY 2027.

- ***Corporate Tax Deduction Decoupling.*** The Budget decouples from two federal corporate tax deductions identified in the H.R. 1 report, effective beginning with tax year 2027 and assumes this action will result in $5.1 million in additional revenues. These include the Qualified Business Stock Gains (QSBS) and the business interest limitation.

The Qualified Small Business Stock Gains provide a tax incentive to founders and investors in qualifying small C corporations to exclude a substantial amount of the gain from stock sales from federal tax. The Budget assumes $1.9 million in additional revenue for FY 2027 from decoupling from the federal treatment. The business interest limitation addresses business interest expenses arising from certain international tax inclusions and related deductions. The Budget assumes decoupling from this exemption will add $3.2 million in revenues.

- ***Income Tax Rates.*** The Budget includes a three-year, phased-in increase in the tax rate on income over $1.0 million beginning in tax year 2027. Rhode Island currently has three tax brackets, with rates adjusted annually for inflation; the highest rate is 5.99 percent and applies to incomes above $186,450 for tax year 2026. For tax year 2027, the rate for incomes over $1.0 million would increase to 6.99 percent. The top rate would be 7.99 percent for tax year 2028 and 8.99 percent for tax year 2029. The annualized impact would grow over time to $142.3 million by FY 2030. For FY 2027, revenues would be $22.7 million.

Additionally, the legislation structures the increased rate as a surtax to allow flexibility for pass-through entities that elect to use the existing state workaround to the federal cap on state and local tax deductions. This mechanism allows for a payment and a 90.0 percent offsetting credit at the entity level, and the rate is currently set at 5.99 percent regardless of income level. With this change, pass-through entities whose owners would not benefit from the higher entity-level rate may continue to elect the 5.99 percent pass-through entity rate. Entities whose owners would benefit from the higher entity-level payment may elect the additional surcharge. Personal income taxpayers with taxable income above $1.0 million remain subject to the additional tax.

- ***Social Security Tax.*** Under current law, taxpayers who have reached full Social Security retirement age (67 or older) and have incomes below $107,000 for individuals and $133,750 for joint filers are exempt from paying state income tax on their Social Security income. The Budget includes the Governor's proposal to eliminate the current age threshold in 2027 but does not include his proposal to phase out the tax completely by 2029. The Budget recognizes a revenue loss of $3.0 million in FY 2027, which annualizes to $6.0 million in FY 2028.

- ***Child Tax Credit.*** The Governor proposed replacing the current dependent exemption with a new refundable child tax credit for each dependent age 18 or younger, effective for tax year 2027. The maximum credit is estimated to be $325 for FY 2027, and the Governor's budget assumes a revenue loss of $14.7 million, which would annualize to $29.7 million. The Budget maintains the current dependent exemption and adds a refundable child tax credit of $330 that phases out at $100,000 for single filers and $125,000 for joint filers. The revenue loss is estimated to be $23.1 million for FY 2027, annualizing to $46.6 million in FY 2028.

- ***Cigarette Tax Increase.*** The Budget does not include the Governor's proposal to increase the cigarette tax by $0.75 to $5.25 per 20-pack, effective September 1, 2026. His FY 2027 budget assumes $6.6 million in revenues, including $7.0 million from the excise tax offset by a $0.4 million reduction in sales tax, reflecting a decline in consumption linked to the higher cost.

- ***Distributor Cigarette Stamp Discount.*** The Budget does not include the Governor's proposal to eliminate the current 1.25 percent discount on cigarette tax stamps purchased by distributors. His FY 2027 budget assumes $0.8 million in revenue based on an effective date of September 1, 2026.

- ***Cigar Tax.*** Cigars are currently taxed as other tobacco products, which is 80.0 percent of their wholesale cost up to a maximum of $0.50 per cigar. The Budget does not include the Governor's proposal to increase the per-cigar cap to $2.00, effective September 1, 2026 to generate $0.6 million in revenue.

- ***Utility Ratepayer Savings Initiatives.*** The Governor recommended several initiatives to lower electricity charges for customers. These include lowering the percentage of electricity that must be generated from renewable sources, requiring amortization of recovered road-repair charges, and capping energy-efficiency surcharges. With an estimated $115.0 million reduction in charges on customer bills for 2027, the initiatives are expected to reduce the gross earnings tax on electricity charges by $2.3 million for FY 2027. The Assembly did not concur with the proposal to cap the energy efficiency program, modified the road repair proposal to achieve more savings, and made other adjustments that affect the revenue assumptions. The FY 2027 Budget includes a revenue loss of $0.8 million.

- ***Pawtucket Tax Increment Financing Debt Service.*** The Budget includes $0.5 million in revenue from the December 2025 refinancing of the Pawtucket Redevelopment Agency's bonds for the Tidewater Landing project. The impact was included in the May Revenue estimate. This refinancing generates $15.1 million in total revenue over the life of the bonds through FY 2053.

- ***Tax Amnesty.*** The Budget includes the Governor's proposal to grant the Division of Taxation authority to implement a 75-day tax amnesty program ending on February 15, 2027. Filers will apply to the Division, and participants will not be subject to penalties or prosecution and will pay the statutory interest rate, reduced by 25.0 percent. The program applies to taxable periods through December 31, 2025, and will not be available to taxpayers under criminal investigation or parties to any court proceedings for fraud related to state taxes. The last amnesty, which concluded in February 2018, collected $22.0 million.

Tax Amnesty Program		
Total Revenues	**$**	**26,347,993**
Personal Income		*8,797,480*
Sales and Use Tax		*4,362,121*
Business Corporations		*2,488,348*
Other Tax Types		*2,697,345*
Interest Payments		*8,002,699*
Implementation Costs	**$**	**(750,000)**
Net Impact	**$**	**25,597,993**

The Budget assumes $26.3 million in one-time revenues, including $18.3 million in tax payments, and provides $750,000 for the Division of Taxation's expenses, including programming and marketing.

- ***Primary Care Assessment Sunset.*** The FY 2026 enacted budget established an assessment, similar to the child and adult immunization program assessments, to generate $30.0 million annually to support primary care and other critical healthcare programs. Federal legislation contained in H.R. 1, adopted after this assessment was enacted, restricts the imposition of new provider taxes. More recent guidance suggested that the assessment could potentially jeopardize aspects of the Medicaid budget beyond lack of federal match. The Budget sunsets the assessment on October 1, 2026, to align with federal guidance. This results in a $22.5 million revenue reduction. This is partially offset by the exclusion of $9.2 million in assessment-related expenses, which were assumed in the May caseload estimate to be funded from state-only sources because of the known match limitations.

- ***Medicaid Spending Proposals.*** The Budget contains proposals that produce a net increase to current law Medicaid expenses to account for home and community-based service rate increases, a revision to GLP-1 coverage, and a change to nursing home coverage for behavioral health beds. This increases revenue by $0.7 million because managed care plans pay a 2.0 percent provider tax on gross premiums, and nursing facilities pay a 5.5 percent provider tax.

Departmental Revenues

- ***Hospital Licensing Fee Renewal.*** The Budget extends the three-tiered system for the community hospitals with FY 2027 payments totaling $228.5 million based on 2023 revenue. This is unchanged from FY 2026. The license fee is generally set and renewed annually and, as such, was not included in the consensus revenue estimate for FY 2027. The license fee for Eleanor Slater Hospital is 5.25 percent based on 2023 revenues for payments totaling $4.0 million; this is consistent with the enacted budget. The Budget assumes total revenues of $232.5 million from both. Federal limits on provider taxes like this one were adopted in H.R. 1 and require a phase-down to 3.5 percent by FY 2032.

- ***Tax Amnesty.*** As noted above, the FY 2027 Budget grants the Division of Taxation the authority to implement a 75-day tax amnesty program ending on February 15, 2027. It assumes this will generate $26.3 million, including $8.1 million in departmental revenues, mostly interest on overdue payments.

- ***Child Support Pass-Through to Federal Max.*** The Budget increases the child support pass-through payment to $100 for families with one child and $200 for families with two or more children, which is the maximum allowed by the federal government. Child support payments collected by the state on behalf of participants in federally funded Temporary Assistance for Needy Families programs are retained by the state to offset the cost of government assistance. Previously, up to $50 per month in child support was passed through to the recipient family. The Budget recognizes a revenue loss of $0.2 million in FY 2027.

Other Revenues

- ***Rhode Island Health and Educational Building Corporation.*** The Budget does not include the Governor's proposal to transfer $2.5 million from the Rhode Island Health and Educational Building Corporation to state general revenues by June 30, 2026.

- ***Rhode Island Infrastructure Bank.*** The Budget does not include the Governor's proposal to transfer $2.0 million from the Rhode Island Infrastructure Bank to state general revenues by June 30, 2026.

Internal Fund Transfers. These are resources going to the general fund in FY 2026 that, under accounting rules, must be shown as fund transfers rather than revenues; they have the same general effect of increasing available general revenue resources.

- ***Pawtucket Downtown Redevelopment.*** The Budget recognizes the transfer of $1.3 million from excess cash reserves from the Pawtucket Economic Activity Taxes restricted receipt account to general revenues by June 30, 2026. These funds were set aside in anticipation of a potential bond issuance that did not occur.

- ***Marijuana Trust Fund.*** The Budget includes the Governor's proposal to transfer $5.0 million from Marijuana Trust Fund restricted receipts to general revenues by June 30, 2026, reallocating these funds to other eligible uses under the Rhode Island Cannabis Act.

- ***Hospital Financing Support SRDF.*** After the Governor submitted his budget, the Assembly adopted 2026-H 7408, Substitute A, as amended, authorizing the State Controller to transfer $18.0 million from the Supplemental State Budget Reserve Account to general revenues for FY 2026. The funds were appropriated to the Rhode Island Health and Educational Building Corporation to establish a debt service reserve to support the sale of the Roger Williams Medical Center and Our Lady of Fatima Hospital.

- ***Restore SRDF to 1%.*** The 2023 Assembly created a Supplemental State Budget Reserve Account to provide additional reserves since the current Budget Reserve and Cash Stabilization Account, or "rainy day fund," is constitutionally capped at 5.0 percent of revenues. The FY 2024 budget included a $55.0 million transfer from general revenues to the account, thereby increasing total reserves from 5.0 percent to 6.0 percent of revenues. The total remained at the initial deposit of $55.0 million until $18.0 million was transferred in February 2026 to support the hospital financing debt service reserve. The Budget replaces the transferred funds and additional resources for a total of $24.0 million. This restores the fund to its original value of approximately one percent of usable revenues.

Other Sources

- ***Gas Tax.*** The disposition of gas tax proceeds is outlined in Section 31-36-20 of the General Laws. Upon receipt, all gas tax proceeds are deposited into the Intermodal Surface Transportation Fund from which statutory transfers are made to the Department of Transportation, Rhode Island Public Transit Authority, Rhode Island Turnpike and Bridge Authority, and the Department of Human Services for the elderly/disabled transportation program. The 2025 Assembly increased that to 41 cents, including the one-cent environmental protection fee, dedicating the new two cents to the Transit Authority.

The Governor proposed reducing the gas tax by two cents, effective July 1, 2026, which is estimated to reduce the Department of Transportation's share by $8.6 million. Supporting documents link this decrease to the two cents that have been supporting recently defeased bonds that served as the state match for projects financed through the Grant Anticipation Revenue Vehicle Program.

The Assembly maintained the gas tax at the current law amount, which increases recommended gas tax proceeds to the Department by $8.8 million, and recognized $1.5 million from updated estimates. This increase partially offsets the reduction to the highway maintenance account as described below.

- ***Highway Maintenance Account.*** Under current law, the Rhode Island Public Transit Authority receives 10.0 percent of the Highway Maintenance Account, in addition to a fixed $5.0 million annually. The Governor proposed increasing the fixed annual allocation by $9.3 million to $14.3 million. Based on projected revenues, the total share would increase from $17.2 million to $26.5 million for FY 2027.

The Assembly revised the Highway Maintenance Account to allocate 25.0 percent of available funds annually to the Rhode Island Public Transit Authority, replacing the current combination of 10.0 percent and the fixed amount. Based on updated estimates, this would provide the Authority with an additional $13.4 million in funds, $4.2 million more than the Governor's recommendation using earlier yield estimates.

	May 2026 Current Law		**Total**	**FY 2027 Enacted**		**Total**	***Chg. to Curr. Law***	***Chg. to Governor***
	Gas Tax	HMA		Gas Tax	HMA			
DOT	$ 106.2	$ 105.4	$ 211.6	$ 106.2	$ 92.0	$ 198.2	*$ (13.4)*	*$ 7.0*
RIPTA	$ 51.5	$ 17.3	$ 68.7	$ 51.5	$ 30.7	$ 82.1	*$ 13.4*	*$ 4.2*

$ in millions