

2026 -- H 8187

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STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2026

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A N A C T

RELATING TO TAXATION -- BUSINESS CORPORATION TAX

Introduced By: Representatives Shallcross Smith, and Casey

Date Introduced: February 27, 2026

Referred To: House Finance

It is enacted by the General Assembly as follows:

1 SECTION 1. Section 44-11-2.3 of the General Laws in Chapter 44-11 entitled "Business
2 Corporation Tax" is hereby amended to read as follows:

3 **44-11-2.3. Pass-through entities — Election to pay state income tax at the entity level.**

4 (a) **Definitions.** As used in this section:

5 (1) "Election" means the annual election to be made by the pass-through entity by filing
6 the prescribed tax form and remitting the appropriate tax.

7 (2) "Net income" means the net ordinary income, net rental real estate income, other net
8 rental income, guaranteed payments, and other business income less specially allocated
9 depreciation and deductions allowed pursuant to § 179 of the United States Revenue Code (26
10 U.S.C. § 179), all of which would be reported on federal tax form schedules C and E. Net income
11 for purposes of this section does not include specially allocated investment income or any other
12 types of deductions.

13 (3) "Owner" means an individual who is a shareholder of an S Corporation; a partner in a
14 general partnership, a limited partnership, or a limited liability partnership; a member of a limited
15 liability company, a beneficiary of a trust; or a sole proprietor.

16 (4) "Pass-through entity" means a corporation that for the applicable tax year is treated as
17 an S Corporation under I.R.C. 1362(a) (26 U.S.C. § 1362(a)), or a general partnership, limited
18 partnership, limited liability partnership, trust, limited liability company or unincorporated sole
19 proprietorship that for the applicable tax year is not taxed as a corporation for federal tax purposes

1 under the state's regulations.

2 (5) "State tax credit" means the amount of tax paid by the pass-through entity at the entity
3 level that is passed through to an owner on a pro rata basis. For tax years beginning on or after
4 January 1, 2025, "state tax credit" means ninety percent (90%) of the amount of tax paid by the
5 pass-through entity at the entity level that is passed through to an owner on a pro rata basis.

6 (b) **Elections.**

7 (1) For tax years beginning on or after January 1, 2019, a pass-through entity may elect to
8 pay the state tax at the entity level at the rate of five and ninety-nine hundredths percent (5.99%).

9 (2) If a pass-through entity elects to pay an entity tax under this subsection, the entity shall
10 not have to comply with the provisions of § 44-11-2.2 regarding withholding on non-resident
11 owners. In that instance, the entity shall not have to comply with the provisions of § 44-11-2.2
12 regarding withholding on non-resident owners.

13 (c) **Reporting.**

14 (1) The pass-through entity shall report the pro rata share of the state income taxes paid by
15 the entity which sums will be allowed as a state tax credit for an owner on his or her personal
16 income tax return.

17 (2) The pass-through entity shall also report the pro rata share of the state income taxes
18 paid by the entity as an income (addition) modification to be reported by an owner on his or her
19 personal income tax returns

20 (d) State tax credit shall be the amount of tax paid by the pass-through entity, at the entity
21 level, which is passed through to the owners, on a pro rata basis. For tax years beginning on or after
22 January 1, 2025, the state tax credit shall be ninety percent (90%) of the amount of tax paid by the
23 pass-through entity, at the entity level, which is passed through to the owners, on a pro rata basis.

24 (e) A similar type of tax imposed by another state on the owners' income paid at the state
25 entity level shall be deemed to be allowed as a credit for taxes paid to another jurisdiction in
26 accordance with the provisions of § 44-30-18.

27 (f) "Combined reporting" as set forth in § 44-11-4.1 shall not apply to reporting under this
28 section.

29 (g) For purposes of this section, the member credit shall be refundable, and shall be allowed
30 in full against Rhode Island individual income tax liability for the taxable year in which the entity-
31 level tax was paid. Any portion of the credit that exceeds the member's Rhode Island tax liability
32 shall be refunded to the member.

33 (h) This section shall sunset and no longer apply to taxable years beginning after December
34 31 of the year in which the federal limitation on state and local tax deductions under § 164(b)(6) of

1 the Internal Revenue Code is repealed, unless further amended by the general assembly.

2 (i) The commissioner of revenue may promulgate rules and regulations to implement this
3 section, including rules governing elections, allocations, reporting, and the calculation of the
4 refundable credit.

5 SECTION 2. This act shall take effect upon passage.

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EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF
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- 1 This act would provide that credits issued pursuant to § 44-11-2.3 relating to pass through
- 2 entities would be refundable.
- 3 This act would take effect upon passage.

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