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STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2022

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A N A C T

RELATING TO TAXATION - PERSONAL INCOME TAX - MILITARY RETIREMENT

Introduced By: Senators Felag, Murray, Raptakis, Gallo, and Lombardo

Date Introduced: January 25, 2022

Referred To: Senate Finance

It is enacted by the General Assembly as follows:

1 SECTION 1. Section 44-30-12 of the General Laws in Chapter 44-30 entitled "Personal
2 Income Tax" is hereby amended to read as follows:

3 **44-30-12. Rhode Island income of a resident individual.**

4 (a) General. The Rhode Island income of a resident individual means his or her adjusted
5 gross income for federal income tax purposes, with the modifications specified in this section.

6 (b) Modifications increasing federal adjusted gross income. There shall be added to federal
7 adjusted gross income:

8 (1) Interest income on obligations of any state, or its political subdivisions, other than
9 Rhode Island or its political subdivisions;

10 (2) Interest or dividend income on obligations or securities of any authority, commission,
11 or instrumentality of the United States, but not of Rhode Island or its political subdivisions, to the
12 extent exempted by the laws of the United States from federal income tax but not from state income
13 taxes;

14 (3) The modification described in § 44-30-25(g);

15 (4)(i) The amount defined below of a nonqualified withdrawal made from an account in
16 the tuition savings program pursuant to § 16-57-6.1. For purposes of this section, a nonqualified
17 withdrawal is:

18 (A) A transfer or rollover to a qualified tuition program under Section 529 of the Internal
19 Revenue Code, 26 U.S.C. § 529, other than to the tuition savings program referred to in § 16-57-

1 6.1; and

2 (B) A withdrawal or distribution that is:

3 (I) Not applied on a timely basis to pay "qualified higher education expenses" as defined
4 in § 16-57-3(12) of the beneficiary of the account from which the withdrawal is made;

5 (II) Not made for a reason referred to in § 16-57-6.1(e); or

6 (III) Not made in other circumstances for which an exclusion from tax made applicable by
7 Section 529 of the Internal Revenue Code, 26 U.S.C. § 529, pertains if the transfer, rollover,
8 withdrawal, or distribution is made within two (2) taxable years following the taxable year for
9 which a contributions modification pursuant to subsection (c)(4) of this section is taken based on
10 contributions to any tuition savings program account by the person who is the participant of the
11 account at the time of the contribution, whether or not the person is the participant of the account
12 at the time of the transfer, rollover, withdrawal or distribution;

13 (ii) In the event of a nonqualified withdrawal under subsection (b)(4)(i)(A) or (b)(4)(i)(B)
14 of this section, there shall be added to the federal adjusted gross income of that person for the
15 taxable year of the withdrawal an amount equal to the lesser of:

16 (A) The amount equal to the nonqualified withdrawal reduced by the sum of any
17 administrative fee or penalty imposed under the tuition savings program in connection with the
18 nonqualified withdrawal plus the earnings portion thereof, if any, includible in computing the
19 person's federal adjusted gross income for the taxable year; and

20 (B) The amount of the person's contribution modification pursuant to subsection (c)(4) of
21 this section for the person's taxable year of the withdrawal and the two (2) prior taxable years less
22 the amount of any nonqualified withdrawal for the two (2) prior taxable years included in
23 computing the person's Rhode Island income by application of this subsection for those years. Any
24 amount added to federal adjusted gross income pursuant to this subdivision shall constitute Rhode
25 Island income for residents, nonresidents and part-year residents;

26 (5) The modification described in § 44-30-25.1(d)(3)(i);

27 (6) The amount equal to any unemployment compensation received but not included in
28 federal adjusted gross income;

29 (7) The amount equal to the deduction allowed for sales tax paid for a purchase of a
30 qualified motor vehicle as defined by the Internal Revenue Code § 164(a)(6); and

31 (8) For any taxable year beginning on or after January 1, 2020, the amount of any Paycheck
32 Protection Program loan forgiven for federal income tax purposes as authorized by the Coronavirus
33 Aid, Relief, and Economic Security Act and/or the Consolidated Appropriations Act, 2021 and/or
34 any other subsequent federal stimulus relief packages enacted by law, to the extent that the amount

1 of the loan forgiven exceeds \$250,000, including an individual's distributive share of the amount
2 of a pass-through entity's loan forgiveness in excess of \$250,000.

3 (c) Modifications reducing federal adjusted gross income. There shall be subtracted from
4 federal adjusted gross income:

5 (1) Any interest income on obligations of the United States and its possessions to the extent
6 includible in gross income for federal income tax purposes, and any interest or dividend income on
7 obligations, or securities of any authority, commission, or instrumentality of the United States to
8 the extent includible in gross income for federal income tax purposes but exempt from state income
9 taxes under the laws of the United States; provided, that the amount to be subtracted shall in any
10 case be reduced by any interest on indebtedness incurred or continued to purchase or carry
11 obligations or securities the income of which is exempt from Rhode Island personal income tax, to
12 the extent the interest has been deducted in determining federal adjusted gross income or taxable
13 income;

14 (2) A modification described in § 44-30-25(f) or § 44-30-1.1(c)(1);

15 (3) The amount of any withdrawal or distribution from the "tuition savings program"
16 referred to in § 16-57-6.1 that is included in federal adjusted gross income, other than a withdrawal
17 or distribution or portion of a withdrawal or distribution that is a nonqualified withdrawal;

18 (4) Contributions made to an account under the tuition savings program, including the
19 "contributions carryover" pursuant to subsection (c)(4)(iv) of this section, if any, subject to the
20 following limitations, restrictions and qualifications:

21 (i) The aggregate subtraction pursuant to this subdivision for any taxable year of the
22 taxpayer shall not exceed five hundred dollars (\$500) or one thousand dollars (\$1,000) if a joint
23 return;

24 (ii) The following shall not be considered contributions:

25 (A) Contributions made by any person to an account who is not a participant of the account
26 at the time the contribution is made;

27 (B) Transfers or rollovers to an account from any other tuition savings program account or
28 from any other "qualified tuition program" under section 529 of the Internal Revenue Code, 26
29 U.S.C. § 529; or

30 (C) A change of the beneficiary of the account;

31 (iii) The subtraction pursuant to this subdivision shall not reduce the taxpayer's federal
32 adjusted gross income to less than zero (0);

33 (iv) The contributions carryover to a taxable year for purpose of this subdivision is the
34 excess, if any, of the total amount of contributions actually made by the taxpayer to the tuition

1 savings program for all preceding taxable years for which this subsection is effective over the sum
2 of:

3 (A) The total of the subtractions under this subdivision allowable to the taxpayer for all
4 such preceding taxable years; and

5 (B) That part of any remaining contribution carryover at the end of the taxable year which
6 exceeds the amount of any nonqualified withdrawals during the year and the prior two (2) taxable
7 years not included in the addition provided for in this subdivision for those years. Any such part
8 shall be disregarded in computing the contributions carryover for any subsequent taxable year;

9 (v) For any taxable year for which a contributions carryover is applicable, the taxpayer
10 shall include a computation of the carryover with the taxpayer's Rhode Island personal income tax
11 return for that year, and if for any taxable year on which the carryover is based the taxpayer filed a
12 joint Rhode Island personal income tax return but filed a return on a basis other than jointly for a
13 subsequent taxable year, the computation shall reflect how the carryover is being allocated between
14 the prior joint filers;

15 (5) The modification described in § 44-30-25.1(d)(1);

16 (6) Amounts deemed taxable income to the taxpayer due to payment or provision of
17 insurance benefits to a dependent, including a domestic partner pursuant to chapter 12 of title 36 or
18 other coverage plan;

19 (7) Modification for organ transplantation.

20 (i) An individual may subtract up to ten thousand dollars (\$10,000) from federal adjusted
21 gross income if he or she, while living, donates one or more of his or her human organs to another
22 human being for human organ transplantation, except that for purposes of this subsection, "human
23 organ" means all or part of a liver, pancreas, kidney, intestine, lung, or bone marrow. A subtract
24 modification that is claimed hereunder may be claimed in the taxable year in which the human
25 organ transplantation occurs.

26 (ii) An individual may claim that subtract modification hereunder only once, and the
27 subtract modification may be claimed for only the following unreimbursed expenses that are
28 incurred by the claimant and related to the claimant's organ donation:

29 (A) Travel expenses.

30 (B) Lodging expenses.

31 (C) Lost wages.

32 (iii) The subtract modification hereunder may not be claimed by a part-time resident or a
33 nonresident of this state;

34 (8) Modification for taxable Social Security income.

1 (i) For tax years beginning on or after January 1, 2016:

2 (A) For a person who has attained the age used for calculating full or unreduced social
3 security retirement benefits who files a return as an unmarried individual, head of household, or
4 married filing separate whose federal adjusted gross income for the taxable year is less than eighty
5 thousand dollars (\$80,000); or

6 (B) A married individual filing jointly or individual filing qualifying widow(er) who has
7 attained the age used for calculating full or unreduced social security retirement benefits whose
8 joint federal adjusted gross income for the taxable year is less than one hundred thousand dollars
9 (\$100,000), an amount equal to the social security benefits includible in federal adjusted gross
10 income.

11 (ii) Adjustment for inflation. The dollar amount contained in subsections (c)(8)(i)(A) and
12 (c)(8)(i)(B) of this section shall be increased annually by an amount equal to:

13 (A) Such dollar amount contained in subsections (c)(8)(i)(A) and (c)(8)(i)(B) of this section
14 adjusted for inflation using a base tax year of 2000, multiplied by;

15 (B) The cost-of-living adjustment with a base year of 2000.

16 (iii) For the purposes of this section the cost-of-living adjustment for any calendar year is
17 the percentage (if any) by which the consumer price index for the preceding calendar year exceeds
18 the consumer price index for the base year. The consumer price index for any calendar year is the
19 average of the consumer price index as of the close of the twelve-month (12) period ending on
20 August 31, of such calendar year.

21 (iv) For the purpose of this section the term "consumer price index" means the last
22 consumer price index for all urban consumers published by the department of labor. For the purpose
23 of this section the revision of the consumer price index which is most consistent with the consumer
24 price index for calendar year 1986 shall be used.

25 (v) If any increase determined under this section is not a multiple of fifty dollars (\$50.00),
26 such increase shall be rounded to the next lower multiple of fifty dollars (\$50.00). In the case of a
27 married individual filing separate return, if any increase determined under this section is not a
28 multiple of twenty-five dollars (\$25.00), such increase shall be rounded to the next lower multiple
29 of twenty-five dollars (\$25.00);

30 (9) Modification for up to fifteen thousand dollars (\$15,000) of taxable retirement income
31 from certain pension plans or annuities.

32 (i) For tax years beginning on or after January 1, 2017, a modification shall be allowed for
33 up to fifteen thousand dollars (\$15,000) of taxable pension and/or annuity income that is included
34 in federal adjusted gross income for the taxable year:

1 (A) For a person who has attained the age used for calculating full or unreduced social
2 security retirement benefits who files a return as an unmarried individual, head of household, or
3 married filing separate whose federal adjusted gross income for such taxable year is less than the
4 amount used for the modification contained in subsection (c)(8)(i)(A) of this section an amount not
5 to exceed \$15,000 of taxable pension and/or annuity income includible in federal adjusted gross
6 income; or

7 (B) For a married individual filing jointly or individual filing qualifying widow(er) who
8 has attained the age used for calculating full or unreduced social security retirement benefits whose
9 joint federal adjusted gross income for such taxable year is less than the amount used for the
10 modification contained in subsection (c)(8)(i)(B) of this section an amount not to exceed \$15,000
11 of taxable pension and/or annuity income includible in federal adjusted gross income.

12 (ii) Adjustment for inflation. The dollar amount contained by reference in subsections
13 (c)(9)(i)(A) and (c)(9)(i)(B) of this section shall be increased annually for tax years beginning on
14 or after January 1, 2018, by an amount equal to:

15 (A) Such dollar amount contained by reference in subsections (c)(9)(i)(A) and (c)(9)(i)(B)
16 of this section adjusted for inflation using a base tax year of 2000, multiplied by;

17 (B) The cost-of-living adjustment with a base year of 2000.

18 (iii) For the purposes of this section, the cost-of-living adjustment for any calendar year is
19 the percentage (if any) by which the consumer price index for the preceding calendar year exceeds
20 the consumer price index for the base year. The consumer price index for any calendar year is the
21 average of the consumer price index as of the close of the twelve-month (12) period ending on
22 August 31, of such calendar year.

23 (iv) For the purpose of this section, the term "consumer price index" means the last
24 consumer price index for all urban consumers published by the department of labor. For the purpose
25 of this section, the revision of the consumer price index which is most consistent with the consumer
26 price index for calendar year 1986 shall be used.

27 (v) If any increase determined under this section is not a multiple of fifty dollars (\$50.00),
28 such increase shall be rounded to the next lower multiple of fifty dollars (\$50.00). In the case of a
29 married individual filing a separate return, if any increase determined under this section is not a
30 multiple of twenty-five dollars (\$25.00), such increase shall be rounded to the next lower multiple
31 of twenty-five dollars (\$25.00); and

32 (10) Modification for Rhode Island investment in opportunity zones. For purposes of a
33 taxpayer's state tax liability, in the case of any investment in a Rhode Island opportunity zone by
34 the taxpayer for at least seven (7) years, a modification to income shall be allowed for the

1 incremental difference between the benefit allowed under 26 U.S.C. § 1400Z-2(b)(2)(B)(iv) and
2 the federal benefit allowed under 26 U.S.C. § 1400Z-2(c).

3 (11) The first twenty-five thousand dollars (\$25,000) of military retirement income,
4 including retirement income from the regular armed forces, reserves, and national guard, paid by
5 the United States or by this state to persons sixty (60) years and older, commencing with the 2023
6 tax year and thereafter, including any survivorship annuities.

7 (d) Modification for Rhode Island fiduciary adjustment. There shall be added to, or
8 subtracted from, federal adjusted gross income (as the case may be) the taxpayer's share, as
9 beneficiary of an estate or trust, of the Rhode Island fiduciary adjustment determined under § 44-
10 30-17.

11 (e) Partners. The amounts of modifications required to be made under this section by a
12 partner, which relate to items of income or deduction of a partnership, shall be determined under §
13 44-30-15.

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

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EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF
A N A C T
RELATING TO TAXATION - PERSONAL INCOME TAX - MILITARY RETIREMENT

1 This act would exclude for the purposes of Rhode Island state income taxes, the first
2 twenty-five thousand dollars (\$25,000) of eligible military retirement income, paid by the state or
3 federal government to persons sixty (60) years or older received in the 2023 tax year, and thereafter.

4 This act would take effect upon passage.

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