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STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2015

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A N A C T

RELATING TO TAXATION -- PERSONAL INCOME TAX

Introduced By: Representatives Craven, Casey, Morin, Azzinaro, and Keable

Date Introduced: January 07, 2015

Referred To: House Finance

It is enacted by the General Assembly as follows:

1 SECTION 1. Chapter 44-30 of the General Laws entitled "Personal Income Tax" is
2 hereby amended by adding thereto the following section:

3 **44-30-1.3. Exemption for retirement income.** -- (a) There is hereby exempted from the
4 amount of personal income subject to taxation in Rhode Island all income received from federal,
5 state and local governments' retirement plans, social security retirement and disability benefits,
6 military pensions, railroad retirement benefits, private pension plans, and deferred-compensation
7 plans in the public and private sector.

8 (b) To qualify for the exemption established in this section, the individual or beneficiary
9 must be at least sixty-five (65) years of age before the close of the taxable year for which the
10 exemption is being claimed.

11 (c) The tax administrator shall make such rules and regulations and prepare such forms as
12 are necessary to accomplish the purposes of this section.

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

15 **44-30-12. Rhode Island income of a resident individual.** -- *(a) General.* The Rhode
16 Island income of a resident individual means his or her adjusted gross income for federal income
17 tax purposes, with the modifications specified in this section.

18 *(b) Modifications increasing federal adjusted gross income.* There shall be added to
19 federal adjusted gross income:

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

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

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

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

11 (A) A transfer or rollover to a qualified tuition program under Section 529 of the Internal
12 Revenue Code, 26 U.S.C. § 529, other than to the tuition savings program referred to in § 16-57-
13 6.1; and

14 (B) A withdrawal or distribution which is:

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

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

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

25 (ii) In the event of a nonqualified withdrawal under subparagraphs (i)(A) or (i)(B) of this
26 subdivision, there shall be added to the federal adjusted gross income of that person for the
27 taxable year of the withdrawal an amount equal to the lesser of:

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

32 (B) The amount of the person's contribution modification pursuant to subdivision (c)(4)
33 of this section for the person's taxable year of the withdrawal and the two (2) prior taxable years
34 less the amount of any nonqualified withdrawal for the two (2) prior taxable years included in

1 computing the person's Rhode Island income by application of this subsection for those years.
2 Any amount added to federal adjusted gross income pursuant to this subdivision shall constitute
3 Rhode Island income for residents, nonresidents and part-year residents; and

4 (5) The modification described in § 44-30-25.1(d)(3)(i).

5 (6) The amount equal to any unemployment compensation received but not included in
6 federal adjusted gross income.

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

9 (c) *Modifications reducing federal adjusted gross income.* There shall be subtracted from
10 federal adjusted gross income:

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

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

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

25 (4) Contributions made to an account under the tuition savings program, including the
26 "contributions carryover" pursuant to paragraph (iv) of this subdivision, if any, subject to the
27 following limitations, restrictions and qualifications:

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

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

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

34 (B) Transfers or rollovers to an account from any other tuition savings program account

1 or from any other "qualified tuition program" under section 529 of the Internal Revenue Code, 26
2 U.S.C. § 529; or

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

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

6 (iv) The contributions carryover to a taxable year for purpose of this subdivision is the
7 excess, if any, of the total amount of contributions actually made by the taxpayer to the tuition
8 savings program for all preceding taxable years for which this subsection is effective over the
9 sum of:

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

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

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

23 (5) The modification described in § 44-30-25.1(d)(1).

24 (6) Amounts deemed taxable income to the taxpayer due to payment or provision of
25 insurance benefits to a dependent, including a domestic partner pursuant to chapter 12 of title 36
26 or other coverage plan.

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

33 (ii) An individual may claim that subtract modification hereunder only once, and the
34 subtract modification may be claimed for only the following unreimbursed expenses that are

1 incurred by the claimant and related to the claimant's organ donation:

2 (A) Travel expenses.

3 (B) Lodging expenses.

4 (C) Lost wages.

5 (iii) The subtract modification hereunder may not be claimed by a part-time resident or a
6 nonresident of this state.

7 (8) Modification reduction for retirement benefits. – (i) An individual may subtract
8 income received from federal, state and local governments' retirement plans, social security
9 retirement and disability benefits, military pensions, railroad retirement benefits, private pension
10 plans, and deferred-compensation plans in the public and private sector, to the extent such income
11 is included in adjusted gross income for federal income tax purposes.

12 (ii) To qualify for the modification established in subsection (c)(8)(i) of this section, the
13 individual or beneficiary must be at least sixty-five (65) years of age before the close of the
14 taxable year for which the modification is being claimed.

15 (d) *Modification for Rhode Island fiduciary adjustment.* There shall be added to or
16 subtracted from federal adjusted gross income (as the case may be) the taxpayer's share, as
17 beneficiary of an estate or trust, of the Rhode Island fiduciary adjustment determined under § 44-
18 30-17.

19 (e) *Partners.* The amounts of modifications required to be made under this section by a
20 partner, which relate to items of income or deduction of a partnership, shall be determined under
21 § 44-30-15.

22 SECTION 3. 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

- 1 This act would exempt retirement income from state personal income tax.
- 2 This act would take effect upon passage.

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