

2016 -- H 7229

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STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2016

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A N A C T

RELATING TO TAXATION -- PERSONAL INCOME TAX

Introduced By: Representatives Craven, Shekarchi, O'Brien, McEntee, and McKiernan

Date Introduced: January 20, 2016

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 government employee retirement plans, military pensions, railroad retirement  
6 benefits, private pension plans, and deferred-compensation plans in the public and private sector.

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

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

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

14           **44-30-12. Rhode Island income of a resident individual.** -- (a) General. - The Rhode  
15 Island income of a resident individual means his or her adjusted gross income for federal income  
16 tax purposes, with the modifications specified in this section.

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

19           (1) Interest income on obligations of any state, or its political subdivisions, other than

1 Rhode Island or its political subdivisions;

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

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

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

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

13 (B) A withdrawal or distribution which is:

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

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

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

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

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

31 (B) The amount of the person's contribution modification pursuant to subdivision (c)(4)  
32 of this section for the person's taxable year of the withdrawal and the two (2) prior taxable years  
33 less the amount of any nonqualified withdrawal for the two (2) prior taxable years included in  
34 computing the person's Rhode Island income by application of this subsection for those years.

1 Any amount added to federal adjusted gross income pursuant to this subdivision shall constitute  
2 Rhode Island income for residents, nonresidents and part-year residents; and

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

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

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

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

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

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

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

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

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

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

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

33 (B) Transfers or rollovers to an account from any other tuition savings program account  
34 or from any other "qualified tuition program" under section 529 of the Internal Revenue Code, 26

1 U.S.C. § 529; or

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

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

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

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

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

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

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

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

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

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

1 (A) Travel expenses.

2 (B) Lodging expenses.

3 (C) Lost wages.

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

6 (8) Modification for taxable Social Security income.

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

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

12 (B) A married individual filing jointly or individual filing qualifying widow(er) who has  
13 attained the age used for calculating full or unreduced social security retirement benefits whose  
14 federal adjusted gross income for such taxable year is less than one hundred thousand dollars  
15 (\$100,000), an amount equal to the social security benefits includable in federal adjusted gross  
16 income.

17 (ii) Adjustment for inflation. - The dollar amount contained in subparagraphs 44-30-  
18 12(c)(8)(i)(A) and 44-30-12(c)(8)(i)(B) shall be increased annually by an amount equal to:

19 (A) Such dollar amount contained in subparagraphs 44-30-12(c)(8)(i)(A) and 44-30-  
20 12(c)(8)(i)(B) adjusted for inflation using a base tax year of 2000, multiplied by;

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

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

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

31 (v) If any increase determined under this section is not a multiple of fifty dollars  
32 (\$50.00), such increase shall be rounded to the next lower multiple of fifty dollars (\$50.00). In the  
33 case of a married individual filing separate return, if any increase determined under this section is  
34 not a multiple of twenty-five dollars (\$25.00), such increase shall be rounded to the next lower

1 multiple of twenty-five dollars (\$25.00).

2 (9) Modification reduction for retirement benefits. – (i) An individual may subtract  
3 income received from federal, state and local government employee retirement plans, military  
4 pensions, railroad retirement benefits, private pension plans, and deferred-compensation plans in  
5 the public and private sector, to the extent such income is included in adjusted gross income for  
6 federal income tax purposes.

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

10 (d) Modification for Rhode Island fiduciary adjustment. - There shall be added to or  
11 subtracted from federal adjusted gross income (as the case may be) the taxpayer's share, as  
12 beneficiary of an estate or trust, of the Rhode Island fiduciary adjustment determined under § 44-  
13 30-17.

14 (e) Partners. - The amounts of modifications required to be made under this section by a  
15 partner, which relate to items of income or deduction of a partnership, shall be determined under  
16 § 44-30-15.

17 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

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

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