

2017 -- H 5563

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STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2017

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A N A C T

RELATING TO TAXATION - PERSONAL INCOME TAX

Introduced By: Representatives Regunberg, Slater, Lima, Donovan, and Kazarian

Date Introduced: February 16, 2017

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 **44-30-2.7.1. Capital gains rates for investment management services interest.**

4 (a) For purposes of this section:

5 (1) "Investment management services" means providing a substantial quantity of any of
6 the following services, directly or indirectly, to a partnership, S corporation or any type of
7 business entity:

8 (i) Advising the partnership, S corporation, or business entity as to the advisability of
9 investing in, purchasing, or selling any specified asset;

10 (ii) Managing, acquiring, or disposing of any specified asset;

11 (iii) Arranging financing with respect to acquiring specified assets; or

12 (iv) Any activity in support of any service described in this subsection.

13 (2) "Specified asset" means securities (as defined §475(c)(2) of the Internal Revenue
14 Code, as amended), real estate held for rental or investment, interests in partnerships,
15 commodities (as defined in §475(e)(2) of the Internal Revenue Code, as amended), or options or
16 derivative contracts with respect to any of the foregoing.

17 (b) Income from investment management services shall be subject to a nineteen percent
18 (19%) "carried interest fairness fee" payable to the state of Rhode Island until such time as the
19 department of revenue has notified the general assembly that the United States Congress has

1 passed and the President of the United States has signed legislation having an identical effect with
2 this section applicable to such income earned in all of the states and territories.

3 (c) A partner or shareholder shall not be deemed to be providing investment management
4 services if at least eighty percent (80%) of the average fair market value of the specified assets of
5 the partnership, S corporation or other business entity during the taxable year consists of real
6 estate.

7 SECTION 2. This act shall take effect upon enactment into law by the states of
8 Connecticut, New Jersey and Massachusetts of legislation having an identical effect with this act,
9 but if the states of Connecticut, New Jersey and Massachusetts shall have already enacted such
10 legislation, this act shall take effect immediately; provided, that the department of revenue shall
11 notify the general assembly of the enactment of such legislation by the states of Connecticut, New
12 Jersey and Massachusetts in furtherance of effectuating the provisions of this act.

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EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF
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1 This act would establish a nineteen percent (19%) carried interest fairness fee for
2 investment management services in order to tax the carried interest income of hedge fund and
3 private equity investors as traditional ordinary earned income.

4 This act would take effect upon enactment into law by the states of Connecticut, New
5 Jersey and Massachusetts of legislation having an identical effect with this act, but if the states of
6 Connecticut, New Jersey and Massachusetts shall have already enacted such legislation, this act
7 would take effect immediately; provided, that the department of revenue would notify the general
8 assembly of the enactment of such legislation by the states of Connecticut, New Jersey and
9 Massachusetts in furtherance of effectuating the provisions of this act.

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