

TITLE 280 – DEPARTMENT OF REVENUE

CHAPTER 20 – DIVISION OF TAXATION

SUBCHAPTER 25 – BUSINESS CORPORATION TAX

PART 17 – Modifications to Net Income Due to Decoupling from P.L. 119-21, H.R.1 (2025)

17.1 Purpose

A. This regulation implements R.I. Gen. Laws § 44-11-11(a)(1)(viii), which amends the definition of net income for Rhode Island Business Corporation Tax purposes to include as increasing modifications certain federal income, deductions, or allowances that would be subject to federal income tax for the taxable years beginning on or before January 1, 2025, but for the enactment of the federal law commonly known as the One Big Beautiful Bill Act (Public Laws No.: 119-21, H.R.1, 119th Cong. (2025)) ("H.R.1"). H.R.1 includes tax provisions that impact tax filing for certain filers for Tax Year 2025 as well as retroactive tax provisions that could impact Tax Years 2022, 2023, and 2024. The purpose of this regulation is to provide guidance to taxpayers to aid effective voluntary compliance in light of the statutory mandate.

17.2 Authority

A. These rules and regulations are promulgated pursuant to R.I. Gen. Laws §§ 44-1-4, 44-11-9, and 44-11-11(a)(1)(viii). These rules and regulations have been prepared in accordance with the requirements of R.I. Gen. Laws § 42-35-1 *et seq.* of the Rhode Island Administrative Procedures Act.

17.3 Application

A. These rules and regulations shall be liberally construed so as to permit the Division of Taxation the authority to effectuate the purpose of R.I. Gen. Laws § 44-11-1 *et seq.* and other applicable state laws and regulations.

17.4 Severability

A. If any provision of these rules and regulations, or the application thereof to any person or circumstances, is held invalid by a court of competent jurisdiction, the validity of the remainder of the rules and regulations shall not be impaired or affected thereby.

17.5 Decoupling

- A. Pursuant to R.I. Gen. Laws § 44-11-11(a)(1)(viii), Rhode Island decoupled from H.R.1 for the taxable years beginning on or before January 1, 2025 with respect to certain provisions.
- B. As a result of decoupling, any income, deduction, or allowance that would be subject to federal income tax for taxable years beginning on or before January 1, 2025, but for the enactment of H.R.1, must be included in net income for Rhode Island Business Corporation Tax purposes to preserve the Rhode Island tax base.

17.6 “Net income” Defined

- A. “Net income” means the same as its definition set forth in R.I. Gen. Laws § 44-11-11, including the following:

(a)(1)(viii) For the taxable year beginning on or before January 1, 2025, there shall be added to net income the amount of any income, deduction, or allowance that would be subject to federal income tax but for the Congressional enactment of the One Big Beautiful Bill Act or any other similar Congressional enactment. The enactment of the One Big Beautiful Bill Act or any other similar Congressional enactment and any Internal Revenue Service changes to forms, regulations, and/or processing which go into effect during the current tax year or within six (6) months of the beginning of the next tax year shall be deemed grounds for the promulgation of emergency rules and regulations under § 42-35-2.10 to effectuate the purpose of preserving the Rhode Island tax base under Rhode Island law with respect to the One Big Beautiful Bill Act or any other similar Congressional enactment.

- B. The taxable year beginning on or before January 1, 2025 includes:

1. The 2025 tax year and all tax years prior to 2025.
2. For fiscal year filers, this includes fiscal taxable years beginning in 2025.
 - a. Example 1: A retail store with a fiscal year of Feb. 1, 2025 – Jan. 31, 2026 for the Tax Year 2025.
 - b. Example 2: A taxpayer with a fiscal year that starts in 2025 and that changes its fiscal year end month during calendar year 2025. If the taxpayer changes its fiscal year end month during the 2025 calendar year, both fiscal years would be deemed to have a period beginning date in 2025 and the taxpayer would have two filings for Tax Year 2025.

17.7 H.R.1 Provisions Impacting Net Income and Resulting Rhode Island Tax Treatment

A. The following sections of H.R.1, as they amend provisions of the Internal Revenue Code, address income, deductions, or allowances that would be subject to federal income tax but for the enactment of H.R.1 and thus are subject to Rhode Island Business Corporation Tax.

1. Modification of limitation on business interest in 26 U.S.C. § 163(j), as amended by H.R.1 § 70303.

a. Pursuant to 26 U.S.C. § 163(j)(8)(A), "adjusted taxable income" means the taxable income of the taxpayer computed without regard to "any deduction allowable for depreciation, amortization, or depletion" for taxable years beginning after December 31, 2024. As § 163(j) reduces federal taxable income, to the extent a taxpayer takes a deduction federally, it must be added back for purposes of the Rhode Island Business Corporation Tax.

b. Rhode Island tax treatment

(1) Partnerships: If the federal partnership return is originally filed or amended and includes an additional deduction for the business interest expense than what was allowed prior to the enactment of H.R.1, then the partnership must add back the additional business interest expense on the RI Schedule HR1 - Entity form. This amount will be reflected as a deduction on Federal Form 1065, Line 15, which lowers federal taxable income.

(2) S-Corporations: If the federal S-corporation return is originally filed or amended and includes an additional deduction for the business interest expense than what was allowed prior to the enactment of H.R.1, then the S-corporation must add back the additional business interest expense on the RI Schedule HR1 - Entity form. This amount will be reflected as a deduction on Federal Form 1120-S, Line 13, which lowers federal taxable income.

(3) C-Corporations: If the federal corporation return is originally filed or amended and includes an additional deduction for the business interest expense than what was allowed prior to the enactment of H.R.1, then the corporation must add back the additional business interest expense on the RI Schedule HR1 - Entity form. This amount will be reflected as a deduction on Federal Form 1120, line 18, which lowers federal taxable income.

2. Treatment of certain qualified sound recording productions in 26 U.S.C. §§ 168(k) and 181, as amended by § 70434.

a. 26 U.S.C. §§ 168(k) and 181 allow a special deduction for qualified sound recording productions, which reduces corporate taxable income for partnerships, S-corporations, and C-corporations. To the extent a taxpayer reduces federal corporate taxable income, the reduction amount must be added back for purposes of the Rhode Island Business Corporation Tax.

b. Rhode Island tax treatment

(1) Partnerships: If the federal partnership return is originally filed or amended and includes an additional deduction of qualified sound recording production under 26 U.S.C. §§ 168(k) and 181 than what was allowed prior to the enactment of H.R.1, then the partnership must add back the additional deduction on the RI Schedule HR1 - Entity form. This amount will be reflected as a deduction on Federal Form 4562 and be reflected as part of the "Other deduction" reported on Federal Form 1065, Line 21, which lowers federal taxable income.

(2) S-Corporations: If the federal S-corporation return is originally filed or amended and includes an additional deduction of qualified sound recording production under 26 U.S.C. §§ 168(k) and 181 than what was allowed prior to the enactment of H.R.1, then the S-corporation must add back the additional deduction on the RI Schedule HR1 - Entity form. This amount will be reflected as a deduction on Federal Form 4562 and be reflected as part of the "Other deduction" reported on Federal Form 1120-S Line 20, which lowers federal taxable income.

(3) C-Corporations: If the federal corporation return is originally filed or amended and includes an additional deduction of qualified sound recording production under 26 U.S.C. §§ 168(k) and 181 than what was allowed prior to the enactment of H.R.1, then the corporation must add back the additional deduction on the RI Schedule HR1 - Entity form. This amount will be reflected as a deduction on Federal Form 4562 and be reflected as part of the "Other deduction" reported on Federal Form 1120, line 26, which will lower federal taxable income.

3. Full expensing of domestic research and experimental expenditures in 26 U.S.C. § 174A, as added by § 70302.

a. H.R.1 adds 26 U.S.C. § 174A regarding amortization of research and experimental expenditures in the computation of federal taxable income. It includes two provisions impacting domestic research and experimental expenditures:

- (1) Allowing all businesses to accelerate expensing of these expenditures starting with Tax Year 2025; and
- (2) Allowing small businesses, defined as a business that has average gross receipts of \$25 million or less (indexed for inflation), to retroactively accelerate expensing of these expenditures for Tax Years 2022, 2023, and 2024. For a taxable year beginning in 2025, the annual gross receipts test is \$31 million or less due to inflation.

b. Rhode Island tax treatment

- (1) If a partnership, S-corporation, or C-corporation elects to file an original or amended federal return for Tax Years 2022, 2023, and/or 2024 to accelerate these expenses, then the partnership or corporation shall file an original or amended return with Rhode Island for that tax year as well and shall complete RI Schedule 174A as an attachment with the paper or electronic filing. The amounts reported on the RI Schedule 174A will be added back on the correlating original or amended RI-1065, RI-1120C, or RI-1120S return for that tax year to effectuate the addback required pursuant to Rhode Island law. Future amortization deductions may not exceed twenty percent (20%) of the initial addback each subsequent year a deduction is taken as allowed by law.
- (2) The partnership, S-corporation, or C-corporation shall complete this RI Schedule 174A amortization worksheet for the applicable tax year:

State of Rhode Island Division of Taxation RI Schedule 174A Section 174A Amortization Worksheet																																																											
Name	Tax Year	Federal employer identification number																																																									
Did you make an election to Amortize Section 174A research and experimental expenditures for this tax year? Yes <input type="checkbox"/> No <input type="checkbox"/> If "YES", do not complete this schedule. If "NO", complete this schedule and attach to your tax return.																																																											
Amortization Schedule <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;">(a) Description of Costs</th> <th style="width: 20%;">(b) Date Amortization Begins</th> <th style="width: 15%;">(c) Amortizable Amount</th> <th style="width: 10%;">(d) Code Section</th> <th style="width: 10%;">(e) Period / %</th> <th style="width: 15%;">(f) Amortization for the Year</th> </tr> </thead> <tbody> <tr> <td colspan="6">1 Amortization of costs that begins during tax year _____</td> </tr> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> <tr> <td colspan="6">2 Total amount of amortization. Add the amounts from line 1, column f _____</td> </tr> </tbody> </table>						(a) Description of Costs	(b) Date Amortization Begins	(c) Amortizable Amount	(d) Code Section	(e) Period / %	(f) Amortization for the Year	1 Amortization of costs that begins during tax year _____																																				2 Total amount of amortization. Add the amounts from line 1, column f _____											
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(3) Eligible small business partnerships, S-corporations, or C-corporations that do not elect to retroactively deduct certain unamortized amounts in Tax Years 2022, 2023, and/or 2024 may elect to accelerate the deduction of unamortized amounts paid for, or incurred in, tax years prior to Tax Year 2025 on the federal Tax Year 2025 filing. Rhode Island decoupled from this tax treatment, which means if this election is made at the federal level, the partnership or corporation is required to complete "RI Schedule 174A" and "2025 RI Schedule HR1 – Entity", and then report on the correlating RI-1065, RI-1120S, or RI-1120C return for Tax Year 2025. These schedules may be filed as part of the entity's paper or electronic filing.

(4) For Tax Year 2025, all partnerships, S-corporations, or C-corporations may elect to amortize research and experimental expenditures at the federal level. Rhode Island decoupled from this tax treatment for this tax year. If a

partnership or corporation does not amortize on the federal filing, the taxpayer shall amortize the expenditures on the Rhode Island return. The taxpayer is required to complete "RI Schedule 174A" and "2025 RI Schedule HR1 – Entity" and then report on the correlating RI-1065, RI-1120S, or RI-1120C return for Tax Year 2025. These schedules may be filed as part of the entity's paper or electronic filing.

(5) For all tax years, partnerships, S-corporations, and C-corporations will be required to maintain an amortization schedule for Rhode Island tax purposes. Any amount that is not allowed within the tax year may be carried forward for a total of five (5) years. Future amortization deductions may not exceed twenty percent (20%) of the initial addback each subsequent year a deduction is taken as allowed by law.

(a) Example:

<u>Amortization Begin Year</u>	<u>Amortization %</u>	<u>Amortizable Amount</u>	<u>Annual Rhode Island Amount</u>	<u>Remaining Amount</u>
2022	20%	\$200,000	\$40,000	\$160,000
2023	20%		\$40,000	\$120,000
2024	20%		\$40,000	\$80,000
2025	20%		\$40,000	\$40,000
2026	20%		\$40,000	

4. Increased dollar limitations for expensing of certain depreciable business assets in 26 U.S.C. § 179(b), as amended by § 70306.

a. 26 U.S.C. § 179(b) sets limitations for expensing certain depreciable business assets. Increasing the expensing limits allows businesses to write off more asset costs immediately, which reduces corporate taxable income for partnerships, S-corporations, and C-corporations. To the extent a taxpayer reduces federal corporate taxable income, the reduction amount must be added back for purposes of the Rhode Island Business Corporation Tax.

b. Rhode Island tax treatment

(1) Partnerships: If the federal partnership return is originally filed or amended and includes an additional deduction for depreciation of assets under 26 U.S.C. § 179(b) than what was allowed prior to the enactment of H.R.1, then the partnership must add back the additional depreciation on the RI Schedule HR1 - Entity form. This amount will be reflected

as a deduction on Federal Form 4562 and reported on Federal Form 1065, line 16a, which lowers federal taxable income.

(2) S-Corporations: If the federal S-corporation return is originally filed or amended and includes an additional deduction for depreciation of assets under 26 U.S.C. § 179(b) than what was allowed prior to the enactment of H.R.1, then the S-corporation must add back the additional depreciation on the RI Schedule HR1 - Entity form. This amount will be reflected as a deduction on Federal Form 4562 and reported on Federal Form 1120-S, line 14, which lowers federal taxable income.

(3) C-Corporations: If the federal corporation return is originally filed or amended and includes an additional deduction for depreciation of assets under 26 U.S.C. § 179(b) than what was allowed prior to the enactment of H.R.1, then the corporation must add back the additional depreciation on the RI Schedule HR1 - Entity form. This amount will be reflected as a deduction on Federal Form 4562 and reported on Federal Form 1120, line 20, which lowers federal taxable income.

17.8 Forms

A. The following “2025 RI Schedule HR1 – Entity” shall accompany a taxpayer’s electronic or paper filing to facilitate the addback to federal taxable income on the RI-1065, RI-1120C, or RI-1120S:

**State of Rhode Island Division of Taxation
2025 RI Schedule HR1 - Entity**
Addback of Federal P. L. 119-21, H.R.1 Provisions

Name	Federal employer identification number

The following P. L. 119-21, H.R.1, 119th Cong. (2025) items taken as deductions on your Federal return are to be added back in order to determine your Rhode Island Taxable Income.

1a Business interest expense deduction included on Federal Form 1065, line 15; Federal Form 1120, line 18; or Federal Form 1120-S, line 13 [I.R.S. Code 163(j)].....	1a
b Section 174A Amortization Adjustment for research and development expensing [I.R.S. Code 174A].....	1b
c Depreciation of business assets [I.R.S. Code 179(b)].....	1c
d Qualified sound recording production deduction [I.R.S. Code 181].....	1d
e Reserved for future use.....	1e
f Total amount of deductions. Add lines 1a - 1e. Enter here and on Form RI-1041, Schedule M, line 2k; Form RI-1040C, Section A, line 2d; Form RI-1065, Schedule C, line 1f; Form RI-1120C, Schedule C, line 1e; or Form RI-1120S, Schedule C, line 1f.....	1f