

280-RICR-20-55-17

TITLE 280 – DEPARTMENT OF REVENUE

CHAPTER 20 – DIVISION OF TAXATION

SUBCHAPTER 55 – PERSONAL INCOME TAX

PART 17 – MODIFICATIONS TO RHODE ISLAND INCOME OF A RESIDENT INDIVIDUAL DUE TO DECOUPLING FROM P.L. 119-21, H.R.1 (2025)

17.1 Purpose

- A. This Regulation implements R.I. Gen. Laws § 44-30-12(b)(9), which provides for modifications increasing federal adjusted gross income for the amount of any income, deduction or allowance 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, 44-30-95, and 44-30-12(b)(9). 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 § 44-30-1 *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 § 44-30-12(b)(9), 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 added to federal adjusted gross income for Rhode Island Personal Income Tax purposes to preserve the Rhode Island tax base.

17.6 Modifications Increasing Federal Adjusted Gross Income

- A. For the taxable year beginning on or before January 1, 2025, there shall be added to federal adjusted gross income the amount of any income, deduction or allowance that would be subject to federal income tax but for the Congressional enactment of H.R.1.
- 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 is 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 Distinction between “Above-the-Line” deductions and “Below-the-Line” Deductions within the Context of H.R.1

- A. “Above-the-line” deductions are subtracted from gross income to calculate federal adjusted gross income (AGI).
- B. “Below-the-line” deductions are subtracted from federal AGI to determine taxable income. Therefore, they are not reflected in federal AGI, which is the starting point of the RI-1040 and RI-1040NR returns.

- C. As part of H.R.1, taxpayers may qualify for certain “above-the-line” deductions. Since Rhode Island decoupled from H.R.1, “above-the-line” deductions must be added back for Rhode Island tax purposes.
- D. As part of H.R.1, taxpayers may qualify for “below-the-line” deductions. Rhode Island is decoupled from this tax treatment and will not allow for these exclusions from ordinary taxable income. However, because these deductions are not used to calculate federal AGI, they will not need to be added back as a modification to the Rhode Island state income tax return.

17.8 H.R.1 Provisions that Reduce Federal Adjusted Gross 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 Personal Income Tax.
 - 1. Deduction of interest payments for individuals related to the purchase of a qualified passenger vehicle and vehicle loan interest in 26 U.S.C. § 163(h), as added by § 70203.
 - a. Effective Tax Year 2025 through Tax Year 2028, 26 U.S.C. § 163(h) allows a deduction of up to \$10,000 annually for interest paid on a loan used to purchase a “qualified vehicle,” provided that the vehicle is purchased for personal use and meets other eligibility requirements.
 - b. As defined in 26 U.S.C. § 163(h), “qualified vehicle” is a car, minivan, van, SUV, pick-up truck, or motorcycle with a gross vehicle weight rating of less than 14,000 pounds and that has undergone final assembly in the United States.
 - c. Rhode Island tax treatment
 - (1) This tax provision is “below the line,” meaning it is not reflected in federal AGI, which is the starting point of the RI-1040 and RI-1040NR returns. Rhode Island is decoupled from this tax treatment and will not allow for this exclusion from ordinary taxable income. However, because this deduction is not used to calculate federal AGI, it will not need to be added back as a modification to the Rhode Island state income tax return.
 - 2. Modification of limitation on business interest in 26 U.S.C. § 163(j), as amended by § 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 AGI, to the extent a taxpayer takes a deduction federally, it must be added back for purposes of the Rhode Island Personal Income Tax.
 - b. Rhode Island tax treatment
 - (1) Sole Proprietor: If the personal income tax 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 sole proprietor must add back the additional business interest expense on the RI Schedule HR1 - Individual form. This amount will be reflected on Federal Form 8990 then reported on Schedule C, line 16 for sole proprietors.
 - (2) Partner in a Partnership or Owner in an S-Corporation: If the personal income tax 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 partner or owner must add back the additional business interest expense on the RI Schedule HR1 - Individual form. This amount will be reflected on the RI Schedule K-1, Section II, line 5 and will need to be reported as part of the amount reported on the RI Schedule M, line 2k.
3. 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 taxable income for sole proprietorships, partnerships, and S-corporations. As §§ 168(k) and 181 reduce federal AGI, to the extent a taxpayer takes a deduction federally, it must be added back for purposes of the Rhode Island Personal Income Tax.
 - b. Rhode Island tax treatment
 - (1) Sole Proprietor: If the personal income tax return is originally filed or amended and includes an additional deduction of qualified sound recording production equipment under 26 U.S.C. §§ 168(k) and 181 than what was allowed prior to the enactment of H.R.1, then the sole proprietor must add back

the additional deduction on the RI Schedule HR1 - Individual form. This amount will be reflected on Federal Form 4562 then reported on Schedule C, line 13 or line 27a for sole proprietors.

- (2) Partner in a Partnership or Owner in an S-Corporation: If the personal income tax return is originally filed or amended and includes an additional deduction of qualified sound recording production equipment under 26 U.S.C. §§ 168(k) and 181 than what was allowed prior to the enactment of H.R.1, then the partner or owner must add back the additional deduction on the RI Schedule HR1 - Individual form. This amount will be reflected on RI Schedule K-1, Section II, line 8 and will need to be reported as part of the amount reported on the RI Schedule M, line 2k.
4. 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 AGI. It includes two provisions impacting domestic research and experimental expenditures:
 - (1) Allowing all sole proprietors, partners in partnerships, or owners in an S-corporation to accelerate expensing of these expenditures starting with Tax Year 2025; and
 - (2) Allowing sole proprietors of small businesses, partners in small business partnerships, or owners in small business S-corporations, with small business 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 sole proprietor, partner in a partnership, or owner in an S-corporation elects to file an original or amended federal return for Tax Years 2022, 2023, and/or 2024 to accelerate these expenses, then the sole proprietor, partner, or owner 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-1040 or RI-1040NR 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 sole proprietor, partner, or owner 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
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Did you make an election to Amortize Section 174A research and experimental expenditures for this tax year? Yes No

If "YES", do not complete this schedule.
If "NO", complete this schedule and attach to your tax return.

Amortization Schedule

(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					

Recalculation of Research and Experimental Expenditures (Section 174A) Amortization					
Instructions: Enter the amount of "research and experimental expenditures" Amortization claimed on Federal Form 4562, Part VI, line 42 and identified in column d as Section 174 on returns filed prior to July 4, 2025; and Section 174A for returns filed after July 4, 2025.					
	Amortization # of years / %	Amortizable Amount	Tax Year 2022	Tax Year 2023	Tax Year 2024
TY22 - Original					
TY22 - Amended					
TY23 - Original					
TY23 - Amended					
TY24 - Original					
TY24 - Amended					
Adjustment					

- (3) Eligible sole proprietors of small businesses, partners in small business partnerships, or owners in small business S-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 sole proprietor, partner, or owner is required to complete “RI Schedule 174A” and “2025 RI Schedule HR1 – Individual,” and then report on the correlating RI-1040 or RI 1040NR return for Tax Year 2025. These schedules may be filed as part of the individual’s paper or electronic filing.

- (4) For Tax Year 2025, all sole proprietors, partners in partnerships, or owners in S-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 sole proprietor, partner, or owner 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 – Individual” and then report on the correlating RI-1040 or RI-1040NR return for Tax Year 2025. These schedules may be filed as part of the individual’s paper or electronic filing.
- (5) For all tax years, sole proprietors, partners, and owners in S-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:

Amortization Begin Year	Amortization %	Amortizable Amount	Annual Rhode Island Amount	Remaining Amount
2022	20%	\$100,000	\$20,000	\$80,000
2023	20%		\$20,000	\$60,000
2024	20%		\$20,000	\$40,000
2025	20%		\$20,000	\$20,000
2026	20%		\$20,000	

- (6) If the Federal 1065 or 1120-S return is originally filed or amended to accelerate amortization of research and experimental expenditures, then the qualifying small business partnership or S-corporation will be required to provide each partner or owner with a RI Schedule K-1 that properly reflects Rhode Island's guidance on decoupling from the federal provisions approved as part of H.R.1. The partner or owner will be required to file an original or amended RI-1040 or RI-1040NR based upon the information reported from the entity.
5. 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 taxable income for sole proprietorships, partnerships, and S-corporations. As § 179(b) reduces federal AGI, to the extent a taxpayer takes a deduction federally, it must be added back for purposes of the Rhode Island Personal Income Tax.
 - b. Rhode Island tax treatment
 - (1) Sole Proprietor: If the personal income tax 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 sole proprietor must add back the additional depreciation on the RI Schedule HR1 - Individual form. This amount will be reflected on Federal Form 4562 then reported on Federal Form Schedule C, line 13 for sole proprietors.
 - (2) Partner in a Partnership or Owner in an S-Corporation: If the personal income tax 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 partner or owner must add back the additional depreciation on the RI Schedule HR1 - Individual form. This amount will be reflected on RI Schedule K-1, Section II, line 7 and will need to be reported as part of the amount reported on the RI Schedule M, line 2k.
6. Income tax deduction for qualified tips in 26 U.S.C. § 224, as added by H.R.1 § 70201.

- a. Effective Tax Year 2025 through Tax Year 2028, 26 U.S.C. § 224 allows qualified employees and self-employed individuals a new “below-the-line” deduction of up to \$25,000 for qualified tip income.
 - b. As defined in 26 U.S.C. § 224, “qualified tips” are voluntary cash or charged tips received from customers or through tip-sharing.
 - c. Rhode Island tax treatment
 - (1) This tax provision is “below-the-line,” meaning it is not reflected in federal adjusted gross income, which is the starting point of the RI-1040 and RI-1040NR returns. Rhode Island is decoupled from this tax treatment and will not allow for this exclusion from ordinary taxable income. However, because this deduction is not used to calculate federal AGI, it will not need to be added back as a modification to the Rhode Island state income tax return.
7. Income tax deduction for qualified overtime in 26 U.S.C. § 225, as added by § 70202.
- a. Effective Tax Year 2025 through Tax Year 2028, 26 U.S.C. § 225 allows employees a new “below-the-line” deduction of up to \$12,500 (\$25,000 for joint filers) for qualified overtime compensation.
 - b. Rhode Island tax treatment
 - (1) This tax provision is “below-the-line,” meaning it is not reflected in federal adjusted gross income, which is the starting point of the RI-1040 and RI-1040NR returns. Rhode Island is decoupled from this tax treatment and will not allow for this exclusion from ordinary taxable income. However, because this deduction is not used to calculate federal AGI, it will not need to be added back as a modification to the Rhode Island state income tax return.

17.9 Forms

- A. The following “2025 RI Schedule HR1 – Individual” shall accompany a taxpayer’s electronic or paper filing to facilitate the add back of items set forth in § 17.8(A)(1)-(5) of this Part to federal adjusted gross income:


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

Name	Social security 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 Modified Federal AGI.

1a Business interest expense deduction included on Federal Form 1040, Schedule C, line 16; or RI Schedule K-1, Section II, line 5 [I.R.S. Code 163(j)] (See instructions).....	1a		
b Section 174A Amortization Adjustment for research and development expensing from RI Schedule K-1, Section II, line 6 [I.R.S. Code 174A].....	1b		
c Depreciation of business assets [I.R.S. Code 179(b)].....	1c		
d Qualified sound recording production deduction from RI Schedule K-1, Section II, line 7 [I.R.S. Code 181].....	1d		
e Reserved for future use.....	1e		
f Total amount of P. L. 119-21, H.R.1 deductions. Add lines 1a - 1d. Enter here and on RI Sch. M, line 2k.....	1f		

- B. Any amounts reported on 2025 RI Schedule HR1 - Individual shall be reported on the RI Schedule M as an increasing modification. Starting with Tax Year 2025, if a taxpayer reports an addback in that tax year for section 174A amortization, the taxpayer will then be allowed a decreasing modification on RI Schedule M in future tax years in accordance with § 17.8(A)(4) of this Part.

17.10 SALT Deduction Cap Increase

- A. Commencing in Tax Year 2025, H.R.1 increases the State and Local Taxes (“SALT”) deduction cap from \$5,000 to \$20,000 for individuals filing separately and \$10,000 to \$40,000 for married filing jointly taxpayers. In response to the initial SALT cap, Rhode Island established a Pass-Through Entity Tax starting in Tax Year 2019. Rhode Island will continue to administer the Pass-Through Entity Tax and any individual who elects to participate is required to comply with the addback on the RI-1040 or RI-1040NR return.

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