

## Client Advisory | June 2010

### Rhode Island Personal Income Tax Revamped

On June 4, 2010 the Rhode Island General Assembly unanimously approved H 8196, An Act Relating To Taxation – Personal Income Tax (the “Act”).



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The Act provides for comprehensive changes to the state’s personal income tax system, including a reduction in the top tax rate from 9.9% to 5.99%, designed to attract out-of-state business by making the state’s tax system more competitive with neighboring states like Massachusetts and Connecticut. Some of the highlights of the Act include (i) reducing the number of tax brackets from 5 to 3 with rates of 3.75%, 4.75% and 5.99%, (ii) eliminating all but eight tax credits, and (iii) doing away with the alternative flat-tax method of calculating personal income tax. The Act also eliminates the option to itemize deductions and increases the standard deduction for most taxpayers. To ensure that the Act is revenue neutral, legislators approved an amended version (Substitute A) that provides for the

phase-out of the standard deduction and personal exemptions for high-income taxpayers. Under the Act, the Rhode Island standard deduction (\$15,000 for married filing jointly) is reduced by 20% for each \$5,000 by which a taxpayer’s adjusted gross income exceeds \$175,000 and is completely phased out for taxpayers whose adjusted gross income exceeds \$200,000.

The Act is currently before Governor Carcieri, who is expected to sign the Act into law. If enacted, the changes outlined above would take effect on January 1, 2011.

If you have any questions regarding the tax law changes summarized in this Advisory or other provisions of the Act, and how these changes and provisions may affect you, please contact one of the following members of our Tax Department:

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