

Income/Franchise:

Rhode Island: New Bank Tax Law Permits Single Sales Factor Election, Includes Intercompany Expense Addback, and Requires Combined Reporting Information Report

H.B. 7927 / S.B. 3152, signed by gov. 6/24/24. Recently signed legislation provides that for tax years beginning on or after January 1, 2025, some banking institutions may elect a single sales factor apportionment methodology for calculating their net income under Rhode Island's bank excise tax. Once successfully made, the election generally remains in effect for all subsequent tax years, except that, after a minimum of five subsequent tax years "in the event of a material change of facts or law, a taxpayer may apply to the tax administrator to revoke the election." For tax years beginning on or after January 1, 2025, the legislation also imposes some intercompany expense "addback" adjustments for certain banking institutions electing single sales factor apportionment and that would otherwise be included in a "unitary business" with non-banking corporations, subject to some listed exceptions such as to avoid unlawful "duplicate taxation" or if doing so would be "unreasonable."

URL: <https://webserver.rilegislature.gov/BillText/BillText24/HouseText24/H7927A.pdf>

URL: <https://webserver.rilegislature.gov/BillText/BillText24/SenateText24/S3152A.pdf>

The legislation further authorizes a combined reporting study, which generally requires each banking institution that is part of a "unitary business" to file an information report with its Rhode Island bank excise tax return for the taxable years beginning after December 31, 2023, but before January 1, 2026 "in a manner prescribed by the tax administrator" for the combined group containing the combined net income of the combined group. Failure to accurately do so potentially may result in added special penalties. According to the legislation, this new information report must provide:

1. The difference in tax owed as a result of filing a combined report compared to the tax owed under the current filing requirements;
2. The volume of sales in Rhode Island and worldwide; and
3. Taxable income in Rhode Island and worldwide.

Correspondingly, the Rhode Island tax administrator must submit its findings on or before March 15, 2027 to certain members of the Rhode Island Legislature "analyzing the policy and fiscal ramifications of changing the bank excise tax statute to a combined method of reporting." Please contact us with any questions.

— Mike Degulis (Boston)
Principal
Deloitte Tax LLP
mdegulis@deloitte.com

Alexis Morrison-Howe (Boston)
Principal
Deloitte Tax LLP
alhowe@deloitte.com

Zsuzsanna Goodman (Boston)
Senior Manager
Deloitte Tax LLP
zgoodman@deloitte.com

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