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Dear Rhode Island Clients,

In Rhode Island, Gov. Rina Raimondo signed the state's fiscal year 2020 state budget bill into law on July 5. Included in this bill, was a provision that allows pass-through entities to elect, on an annual basis, to be taxed at the entity level at a RI tax rate of 5.99% and allow pass-through owners to receive a RI tax credit equal to 100% of the owner's share of tax paid by the business.

The intent of this bill is to provide owners of S corporations, partnerships, and sole proprietorships a workaround to the \$10,000 SALT deduction cap that went into effect in 2018. This workaround is for tax years beginning 2019 and is an annual election by the business.

As the bill was signed on July 5th, we expect future guidance from both the state and the IRS regarding this new pass-through entity tax. Since the tax is an election, it is not certain yet whether the entity level tax will be deductible and be an acceptable workaround. Although the state is calling it an entity level tax, the IRS is currently reviewing similar situations and is expected to issue additional guidance later this year.

If you have questions or concerns, please let us know.

Rosen & Associates, LLP