



This Week in State Tax (TWIST)

June 17, 2024



To listen to the podcast please [click here](#)

Rhode Island: Legislature Passes Bill Allowing Banks to Elect Single-Sales Factor and More

Currently, banking institutions are required to apportion their income to Rhode Island using a three-factor formula consisting of property, payroll, and receipts. General corporations use a single-sales factor apportionment formula. Under legislation (House Bill 7927) that has passed both chambers of the legislature, effective for tax years beginning on or after January 1, 2025, a banking institution would be able to elect to apportion income using a single receipts factor formula. Once made, the election would be effective for all subsequent tax years. After five years, a taxpayer would be able to apply to the tax administrator to revoke the election. To the extent that the banking institution has made the election and would be part of a unitary combined group if not for the exclusion for banks from the group, the electing bank would be subject to new addback rules. All business expense transactions between the taxpayer and the members of the unitary business would be added to the net income of the taxpayer bank unless to do so would result in duplicate taxation in violation of the law, or an exception applied, such as the taxpayer establishing by clear and convincing evidence that the disallowance of the deduction was unreasonable, or the taxpayer and the tax administrator agree in writing to the use of an alternative method of apportionment.

Finally, the pending legislation authorizes a combined reporting study for banks. As part of its tax return for the taxable year beginning after December 31, 2023, but before January 1, 2026, each banking institution that is part of a unitary business must file a report for the combined group containing the combined net income of the combined group. For each tax year, the report must include, at a minimum: (i) The difference in tax owed as a result of filing a combined report compared to the tax owed under the current filing requirements; (ii) Volume of sales in the state and worldwide; and (iii) Taxable income in the state and worldwide. Certain foreign banks and banks with significant foreign activity would be excluded from the reports. A banking institution that files a false report or fails to file a report may be assessed a penalty not to exceed \$10,000. The information reported would be incorporated into a study to be submitted to the legislature addressing the policy and fiscal ramifications of changing the bank excise tax statute to a combined method of reporting. Please contact [Jamie Posterro](#) with questions on these changes.

Learn about us:



[kpmg.com](https://www.kpmg.com)