

STATE OF RHODE ISLAND

GENERAL ASSEMBLY

FISCAL IMPACT ANALYSIS

Senate Bill 2021 (LC003436)

Bitcoin Tax Exemption Act

An Act Relating to Taxation — Personal Income Tax

Prepared for:

Members of the Rhode Island General Assembly

Senate Finance Committee

January 2026

EXECUTIVE SUMMARY

This fiscal impact analysis examines Senate Bill 2021 (S2021), introduced by Senator Peter A. Appollonio on January 9, 2026, which proposes a limited income tax exemption for Bitcoin transactions conducted by Rhode Island residents and businesses. The bill would amend Chapter 44-30 of the General Laws by adding Section 44-30-12.1, establishing a one-year pilot program effective January 1, 2027, through January 1, 2028.

Key Provisions

- Exempts Bitcoin sales or exchanges from state income and capital gains tax up to \$5,000 per month
- Annual exemption cap of \$20,000 per taxable year per individual or business
- Self-certification mechanism with recordkeeping requirements for audit purposes
- Built-in sunset provision requiring legislative review before extension

Fiscal Impact Summary

Metric	Estimate
Estimated Annual Revenue Impact	\$500,000 to \$2.5 million reduction
Impact as % of Personal Income Tax	0.03% to 0.13%
Impact as % of General Revenue	0.01% to 0.04%
Estimated Affected Taxpayers	8,000 to 12,000 individuals
Administrative Cost (DBR)	\$50,000 to \$100,000 (one-time)

Key Findings

1. The fiscal impact is modest relative to the state's \$250 million structural deficit and \$1.91 billion personal income tax base.
2. The exemption thresholds align with typical retail cryptocurrency user behavior, limiting exposure to high-value transactions.
3. The one-year sunset provision provides an opportunity to assess actual fiscal and economic impacts before permanent implementation.
4. Rhode Island would join a growing number of states offering cryptocurrency tax incentives to attract blockchain businesses and talent.

Recommendation Summary

Given the limited fiscal exposure, built-in sunset provision, and potential economic development benefits, this analysis finds S2021 presents manageable fiscal risk. However, legislators should carefully weigh this against Rhode Island's current structural

deficit challenges and consider whether economic development incentives represent an appropriate use of foregone revenue during a period of fiscal constraint.

1. INTRODUCTION AND BACKGROUND

1.1 Bill Overview

Senate Bill 2021 proposes to amend Rhode Island’s personal income tax code (Chapter 44-30 of the General Laws) by establishing a new Section 44-30-12.1, creating a limited exemption from state income and capital gains taxation for qualifying Bitcoin transactions.

The bill defines Bitcoin as “a digital, decentralized currency based on blockchain technology, which is used for peer-to-peer transactions.” Notably, the exemption applies exclusively to Bitcoin and does not extend to other cryptocurrencies or digital assets.

1.2 Legislative Context

S2021 was introduced by Senator Peter A. Appollonio on January 9, 2026, and referred to the Senate Finance Committee. The bill represents the latest in a series of cryptocurrency-related legislative initiatives in Rhode Island, following similar proposals in previous sessions.

Rhode Island has demonstrated interest in blockchain technology through several pilot programs, including blockchain-based initiatives for Certified Public Accountants (2022) and business registration records (2023). The Rhode Island Blockchain Council, established in 2023 as a 501(c)(6) nonprofit organization, has advocated for cryptocurrency-friendly policies to attract digital asset businesses to the state.

1.3 Purpose of Analysis

This fiscal impact analysis is prepared to inform legislative decision-making by providing:

- Quantitative estimates of potential revenue impacts
- Assessment of implementation costs and administrative requirements
- Comparative analysis with similar legislation in other jurisdictions
- Context within Rhode Island’s current fiscal environment

2. METHODOLOGY

2.1 Data Sources

This analysis draws upon the following primary data sources:

State Fiscal Data

- Rhode Island Office of Management and Budget (FY2026 Budget)
- Rhode Island Public Expenditure Council (RIPEC) fiscal analyses
- Rhode Island Division of Taxation reports and guidance documents
- Revenue Estimating Conference reports (November 2025)

Cryptocurrency Market Data

- Security.org 2026 Cryptocurrency Adoption Report
- JP Morgan Chase Institute research on cryptocurrency investor behavior
- Internal Revenue Service (IRS) cryptocurrency reporting data
- SmartAsset 2025 State Cryptocurrency Adoption Study

Comparative Legislative Analysis

- National Conference of State Legislatures (NCSL) cryptocurrency legislation tracker
- Fiscal impact assessments from Missouri, Wyoming, and New Hampshire
- Tax Foundation state tax competitiveness analyses

2.2 Analytical Framework

Revenue impact projections were developed using a multi-scenario approach incorporating:

5. Estimation of the eligible taxpayer population based on national and regional cryptocurrency adoption rates
6. Analysis of typical transaction sizes and frequencies among retail cryptocurrency users
7. Application of Rhode Island's marginal tax rates to estimated exempted gains
8. Sensitivity analysis across conservative, moderate, and aggressive adoption scenarios

2.3 Limitations

This analysis is subject to several inherent limitations:

- Cryptocurrency ownership data at the state level is limited and often relies on extrapolation from national surveys
- Behavioral responses to tax exemptions (e.g., increased transaction activity) are difficult to predict
- Bitcoin price volatility significantly affects both the value of transactions and realized gains
- Migration effects (individuals or businesses relocating to Rhode Island) are speculative

3. RHODE ISLAND FISCAL CONTEXT

3.1 FY2026 Budget Overview

Understanding the fiscal environment in which S2021 would operate is essential for evaluating its appropriateness. Rhode Island's FY2026 budget, enacted in June 2025, totals \$14.34 billion, with general revenue spending of \$5.81 billion representing 40.1% of total expenditures.

FY2026 Budget Metric	Amount
Total Budget	\$14.34 billion
General Revenue Spending	\$5.81 billion
Personal Income Tax Revenue	\$1.91 billion
Year-over-Year Budget Increase	3.8%

3.2 Structural Deficit

Rhode Island faces a significant structural deficit that provides important context for evaluating any tax exemption proposal. The FY2026 budget addressed an approximately \$250 million shortfall primarily through reliance on a one-time general revenue surplus of \$230.2 million.

According to the Rhode Island Public Expenditure Council (RIPEC), this approach of using one-time revenues to fund continuing expenditures has created a structural deficit trajectory:

Fiscal Year	Projected Deficit
FY2027	\$101 – \$304 million
FY2030	\$462 million

The primary drivers of these projected deficits include Health and Human Services spending growth exceeding twice the rate of available revenues, Medicaid costs projected to increase 6.5% in FY2026, K-12 education expenditures growing at 4.6% annually, and unfunded state personnel cost-of-living adjustments from FY2025.

3.3 Current Tax Treatment of Capital Gains

Rhode Island does not provide preferential tax treatment for capital gains. All capital gains, including those from cryptocurrency transactions, are taxed as ordinary income at progressive rates ranging from 3.75% to 5.99%. The top marginal rate of 5.99% applies to taxable income exceeding \$181,650 for tax year 2025.

This tax structure places Rhode Island at a competitive disadvantage relative to neighboring New Hampshire, which has no state income tax, and creates combined federal and state capital gains tax rates often exceeding 25% to 30% for Rhode Island investors. The Tax Foundation ranks Rhode Island 40th out of 50 states in overall state tax competitiveness.

3.4 Federal Policy Considerations

Rhode Island has recently taken a protective stance regarding federal tax exemptions. In response to H.R. 1 (Public Law 119-21), the state has “decoupled” from certain federal provisions, including tip income exclusions and overtime exclusions, to protect state revenues. This decoupling is projected to protect approximately \$79 million annually that would otherwise be lost to new federal business tax deductions.

4. FINDINGS

4.1 Revenue Impact Analysis

4.1.1 Eligible Population Estimate

National cryptocurrency adoption data indicates that approximately 30% of American adults (70.4 million people) own cryptocurrency as of 2026, with 74% of crypto holders owning Bitcoin specifically. However, IRS reporting data suggests a much smaller population actively engages in taxable transactions.

Based on IRS data showing 2.78 million Americans reported cryptocurrency activity on tax returns in 2022, and applying regional adoption patterns, we estimate that 8,000 to 12,000 Rhode Island residents currently report cryptocurrency transactions for state tax purposes. This represents approximately 1.5% to 2.0% of Rhode Island tax filers.

4.1.2 Transaction Size and Frequency

Research from the JP Morgan Chase Institute indicates that the median lifetime cryptocurrency investment among retail users is approximately \$620. Approximately 74% of Bitcoin owners hold less than 0.01 BTC, and the median crypto investor holds less than one week's take-home pay in cryptocurrency.

These findings suggest that the \$5,000 monthly and \$20,000 annual exemption thresholds in S2021 would cover the vast majority of retail cryptocurrency transactions. Only high-volume traders or investors with significant holdings would exceed these limits.

4.1.3 Revenue Projection Model

Scenario	Assumptions	Revenue Impact
Conservative	5,000 filers; \$2,000 avg gain; 5% rate	\$500,000
Moderate	8,000 filers; \$3,500 avg gain; 5% rate	\$1.4 million
Aggressive	10,000 filers; \$5,000 avg gain; 5% rate	\$2.5 million

These projections represent the maximum potential revenue foregone under each scenario. Actual impacts may be lower due to behavioral factors, including taxpayers who would not have realized gains absent the exemption.

4.2 Comparative State Analysis

4.2.1 New Hampshire HB 302

New Hampshire became the first state to establish a Strategic Bitcoin Reserve in May 2025, allowing the state treasurer to invest up to 5% of public funds in digital assets with

market capitalization exceeding \$500 billion. New Hampshire's lack of state income tax means there is no direct tax exemption comparison; however, this positions New Hampshire as the most cryptocurrency-friendly state in New England.

4.2.2 Missouri HB 594

Missouri became the first state to fully eliminate capital gains tax on cryptocurrency, stocks, and real estate in 2025. Fiscal impact estimates vary widely, with official state estimates projecting \$111 to \$157 million in annual revenue loss, legislative researchers estimating \$262 million, and independent analyses suggesting costs as high as \$625 million annually. Distributional analysis indicates that the top 5% of income earners receive 80% of the benefit.

4.2.3 Wyoming Cryptocurrency Laws

Wyoming has enacted 24 pro-cryptocurrency laws since 2018, including exemptions from property taxes and money transmitter regulations. Rather than experiencing revenue loss, Wyoming has generated new fee revenue from cryptocurrency businesses, with \$20 billion in assets projected to generate \$4 million in annual custodial fees. Over 130 decentralized autonomous organizations (DAOs) have registered in Wyoming.

4.2.4 Federal De Minimis Proposals

The proposed federal Lummis-Gillibrand Responsible Financial Innovation Act includes a de minimis exemption for cryptocurrency transactions under \$200 per transaction with a \$5,000 annual cap. S2021's thresholds of \$5,000 monthly and \$20,000 annually are significantly more generous than the proposed federal standard.

4.3 Implementation Considerations

4.3.1 Administrative Requirements

Section 6(f) of S2021 requires the Department of Business Regulation (DBR) to issue plain-language guidance for individuals and businesses, including examples of acceptable recordkeeping and valuation methods. This will require administrative resources to develop guidance documents and potentially respond to taxpayer inquiries.

Estimated one-time administrative costs for DBR guidance development and Division of Taxation form modifications range from \$50,000 to \$100,000.

4.3.2 Compliance and Enforcement

The bill's self-certification mechanism with recordkeeping requirements places the compliance burden primarily on taxpayers. Section 6(e) requires taxpayers to maintain "reasonable records sufficient to verify that the total value of Bitcoin sales or exchanges within the taxable year does not exceed the annual exemption limit."

The absence of individual transaction reporting requirements may create enforcement challenges. However, the relatively low exemption thresholds limit potential abuse, and federal cryptocurrency reporting requirements provide a backstop for audit purposes.

4.3.3 Sunset Provision

The bill includes a sunset provision terminating the exemption on January 1, 2028, unless extended by the General Assembly following review of fiscal and economic impact. This one-year pilot approach provides valuable data collection opportunity while limiting long-term fiscal commitment.

5. COST-BENEFIT ANALYSIS

5.1 Quantifiable Costs

Cost Category	Low Est.	High Est.
Annual Revenue Foregone	\$500,000	\$2.5 million
Administrative Implementation (one-time)	\$50,000	\$100,000
Total First-Year Cost	\$550,000	\$2.6 million

5.2 Potential Benefits

5.2.1 Economic Development

Proponents argue that cryptocurrency-friendly tax policy attracts blockchain businesses, technology workers, and entrepreneurial capital. The Rhode Island Blockchain Council has advocated for such policies, noting that “current tax implications of spending BTC hamper its utility for Rhode Island citizens and stifle economic activity.”

Wyoming’s experience suggests that pro-cryptocurrency legislation can generate new business registrations and fee revenue. However, Wyoming’s broader suite of 24 laws and absence of state income tax make direct comparison difficult.

5.2.2 Competitive Positioning

Rhode Island currently competes with New Hampshire, which has no state income tax and recently enacted HB 302 establishing a Strategic Bitcoin Reserve. S2021 would provide Rhode Island a competitive advantage over other New England states that have not enacted cryptocurrency-specific tax benefits, though it would not match New Hampshire’s zero income tax environment.

5.2.3 Taxpayer Simplification

The exemption would reduce compliance burden for small-scale Bitcoin users by eliminating the need to track and report gains on everyday transactions. This aligns with the rationale behind proposed federal de minimis exemptions.

5.3 Risk Assessment

5.3.1 Fiscal Timing Risk

The most significant concern is timing. Rhode Island faces a structural deficit of \$101 to \$304 million in FY2027, projected to grow to \$462 million by FY2030. While S2021’s revenue impact is modest (0.01% to 0.04% of general revenue), every dollar of foregone revenue exacerbates the deficit challenge.

5.3.2 Precedent Risk

Establishing a tax exemption for one asset class (Bitcoin) may invite requests for similar treatment of other cryptocurrencies or asset categories. The bill's narrow scope to Bitcoin specifically may be difficult to maintain if other digital assets gain mainstream adoption.

5.3.3 Behavioral Uncertainty

The economic development benefits cited by proponents are largely speculative. There is limited empirical evidence that state-level cryptocurrency tax incentives meaningfully influence business location decisions, particularly for exemptions of this modest scale.

6. RECOMMENDATIONS

Based on the analysis presented in this report, the following recommendations are offered for legislative consideration:

6.1 Primary Recommendation

Given the limited fiscal exposure and built-in sunset provision, S2021 presents manageable fiscal risk and may be considered for passage as a pilot program. However, passage should be contingent upon:

9. Formal fiscal note from the Department of Revenue with refined revenue impact estimates
10. Commitment from DBR to track utilization data during the pilot period
11. Establishment of clear metrics for evaluating extension beyond the sunset date

6.2 Alternative Considerations

If legislators determine that any foregone revenue is inappropriate given current fiscal constraints, the following modifications could reduce fiscal impact while preserving policy intent:

- Reduce exemption thresholds to \$2,500 monthly / \$10,000 annually (aligned with proposed federal de minimis standards)
- Limit eligibility to individual taxpayers only, excluding businesses
- Add income eligibility limits to target the exemption to middle-income taxpayers
- Delay effective date to FY2029 when structural deficit pressures may have eased

6.3 Monitoring Requirements

If enacted, the General Assembly should require the following data collection during the pilot period to inform the sunset review:

12. Number of taxpayers claiming the exemption
13. Total dollar value of exemptions claimed
14. Distribution of exemptions by income bracket
15. New blockchain business registrations in Rhode Island
16. Comparative analysis of cryptocurrency business activity versus peer states

APPENDIX: SOURCES AND REFERENCES

Rhode Island Fiscal Data

- Rhode Island Office of Management and Budget, FY 2026 Governor's Budget
- Rhode Island Public Expenditure Council (RIPEC), "Rhode Island State Budget Outlook for FY 2026," January 2025
- Rhode Island Division of Taxation, 2025 Summary of Legislative Changes
- Rhode Island Revenue Estimating Conference, November 2025 Report

Cryptocurrency Market Data

- Security.org, "2026 Cryptocurrency Annual Consumer Report"
- JP Morgan Chase Institute, "Dynamics and Demographics of U.S. Household Crypto Asset Use"
- SmartAsset, "Bitcoin and Cryptocurrency Adoption by State 2025"
- Internal Revenue Service, Cryptocurrency Reporting Statistics (2022)

Comparative State Legislation

- National Conference of State Legislatures, "Cryptocurrency 2025 Legislation Tracker"
- New Hampshire House Bill 302 (2025)
- Missouri House Bill 594 (2025)
- Wyoming Cryptocurrency Legislation Summary (2018-2025)
- Tax Foundation, "State Tax Competitiveness Index 2026"

Rhode Island Blockchain Activity

- Rhode Island Blockchain Council (riblockchain.org)
- America's Future, "The State of Blockchain: Rhode Island as a U.S. Blockchain Capital"

* * *

End of Report