The Economic Progress Institute

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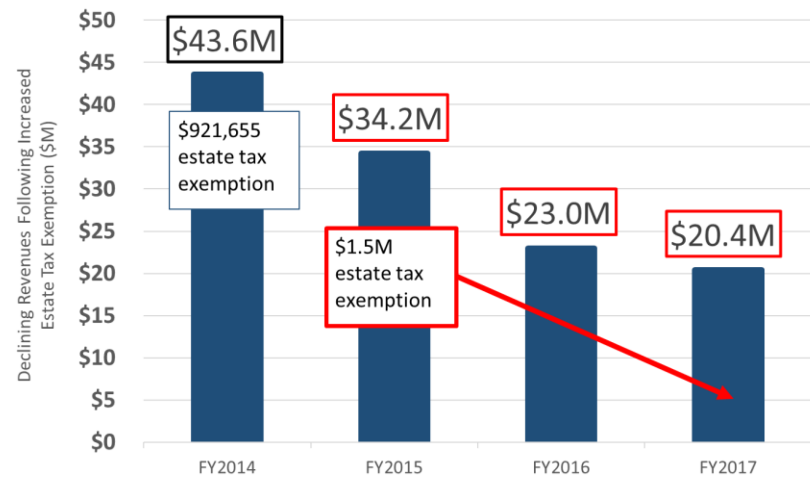
Rhode Island's Estate Tax: A Vital Tool for Broadly Shared Prosperity

Rhode Island's estate tax provides revenues vital for a strong economic foundation for shared prosperity. Eroding the estate tax by increasing the exemption level has reduced revenues needed for the services we need to improve Rhode Island's economy today and into the future. In addition to raising revenues needed for investment in public services that build a strong economy, robust estate taxes also assure that the wealthy cannot avoid paying taxes on certain types of wealth.

Figure 1: Estate Tax Revenues Decline Following Increased Exemption Passed in 2014

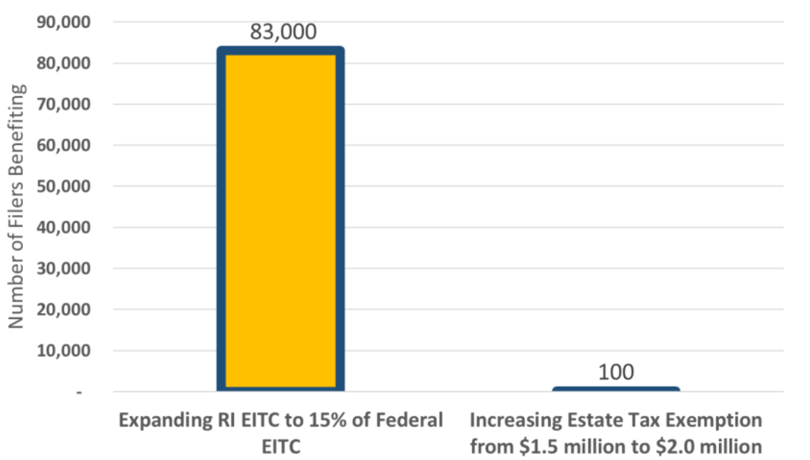


FY14-15 data reflect audited accounts, FY16 reflects revised estimate, and FY17 reflects Governor's 2017 recommended budget.

Significant Revenue Lost:
Rhode Island has seen changes to our estate tax exemption level erode important revenues over the past several years, most dramatically following the increase in the exemption to $1.5 million, passed in 2014. In Figure 1, we see that as the $1.5 million exemption is phased in, revenues go down precipitously.

Same Cost as EITC Increase: The estimated cost of increasing Rhode Island's estate tax exemption to $2.0 million is comparable to the estimated cost of increasing the state earned income tax credit from 12.5 % of the federal EITC to 15 % of the federal EITC, as recommended in the Governor's budget – about $4 million.[i]

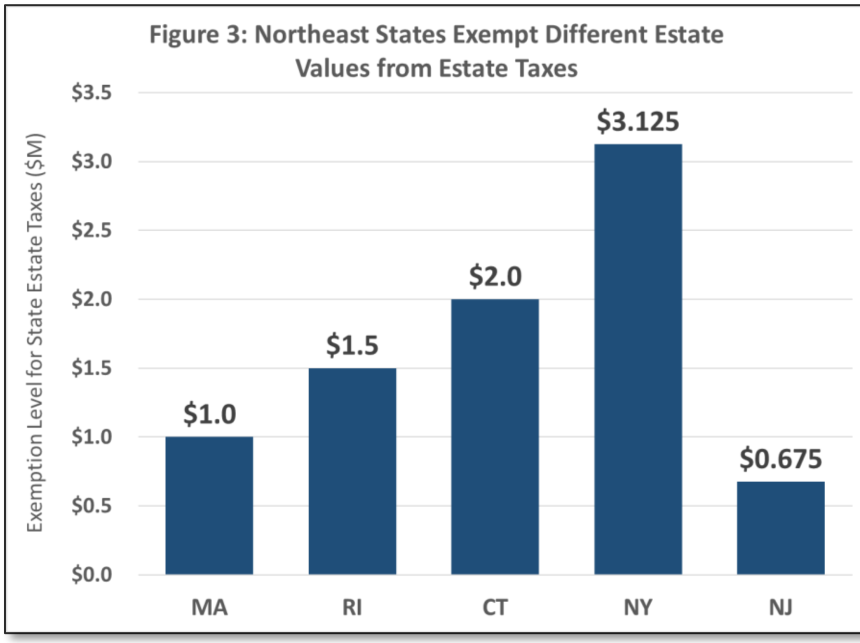
Figure 2: For about $4 million, we can either help 83,000 Rhode Island working families, or 100 wealthy families



Source: EITC cost estimated at $4 million by ITEP, January 2016. $4.3 million cost of increasing threshold from $1.5 million to $2.0 million cited in Providence Journal, Friday April 29, 2016. http://www.providencejournal.com/news/20160428/raimondo-mattiello-talk-up-potential-tax-cuts

Figure 2 dramatically compares the impact these two alternatives would have on Rhode Island's residents. On the right, we see that approximately 100 estates would see a reduction in the estate taxes owed if we were to increase the estate tax from $1.5 million to $2.0 million, about 35 of which would be exempted altogether.[ii] For the same $4 million, about 83,000 Rhode Island families would see an increase in their state EITC, helping them make ends meet while boosting local economies.

Northeastern Comparison Shows Reduction Doesn't Improve Economic Condition: Nearly half of all states—including every state in the Northeast except New Hampshire—impose a tax on estates. Nationally, eighteen states collect estate taxes, totaling over $4.7 billion annually.[iii] Prior to 2001, most states' estate taxes were coupled to the federal estate tax. Since then, a patchwork has emerged, as evident in Figure 3.



In comparing state estate taxes, we see nearly an inverse relationship between recent economic performance and estate tax exemption levels, with "high estate tax" New Jersey experiencing vibrant job growth (2.0%), Massachusetts and Rhode Island following with 1.8 percent job growth, and "low estate tax" New York experiencing comparatively modest job growth of 1.4 percent (Mar 15 to Mar 16). Middle of the pack Connecticut experienced less than 1 percent growth during this time.

The choice is clear – we can choose to support Rhode Island's working families, by increasing the economy-boosting state EITC, or we can support the 100 or so wealthiest residents filing estate tax returns each year.

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[i] Increasing the state EITC to 20 percent of the federal EITC, as recommended in bills currently before the General Assembly, and supported by the Economic Progress Institute and a coalition of dozens of organizations, would cost an estimated $13.2 million annually.

[ii] In 2014, the Office of Revenue Analysis estimated annual estate tax returns of 203, 117 of which were for estates of less than $1.5 million in value, leaving 86 that would be subject to estate tax if the exemption were increased to $1.5 million. We have rounded that up to 100 for the purpose of this comparison, in part in recognition of the fact that the number of estate tax claims can vary notably from year-to-year.

[iii] Elizabeth McNichol, 2015, *Many States Tax Inherited Wealth*, Center on Budget and Policy Priorities. http://www.cbpp.org/research/many-states-tax-inherited-wealth