

Testimony in Opposition to House Bills 5310, 5312, 5594, and 5777

House Finance Committee

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The Economic Progress Institute opposes **House Bills 5310, 5312, 5594, and 5777** before you today. These bills aim to erode or eliminate Rhode Island’s already narrow Estate Tax, depriving the Treasury of much-needed revenues, and making our current inequitable tax structure *even more inequitable*. Indeed, should the Estate Tax be repealed altogether, Rhode Island stands to lose something on the order of a half-billion dollars in revenues over the next decade. With tightening budgets and the likelihood of an economic downturn at some point during the next ten years, we cannot afford to dispense with this critical source of funds. Rhode Island’s tax system is already regressive, and raising further the exemption level or repealing the Estate Tax would only make it more regressive.

The Estate Tax, perhaps better characterized as an *Inheritance Tax*, is a levy on transferring property after a person dies. For Tax Year 2018, the federal tax applies only to taxable estates in excess of \$11.2 million in value. It is estimated that such a threshold will affect approximately 1,800 estates *nationally*, with an estimated 8 of these in Rhode Island.¹

For Rhode Island in Tax Year 2019, only estates of values in excess of \$1,561,719 are eligible for the state inheritance tax, and only the value *above* this amount is taxed. From Tax Years 2009 through 2014, the threshold ranged from \$675,000 to \$921,655, with the entire value taxable. For Tax Years 2015 and 2016, the threshold was increased to \$1.5 million, with a credit given to offset taxes calculated for that \$1.5 million. Since then, both the threshold and the tax credit have increased with inflation. As illustration of these changes, *Figure 1* shows the taxes and effective tax rates applicable to estates valued at \$1.0 million and \$1.6 million, as calculated for 2014, 2015, and 2019.

Whereas in 2014, a \$1.0 million estate would have had \$36,560 in taxes levied upon it, in 2019, an estate valued at \$1.5 million would have no taxes levied on it, and an estate valued at \$1.6 million would have only \$6,770 in taxes levied, for **an effective tax rate of under one-half of one percent**.

Even if efforts to eliminate or further reduce the Estate Tax prove unsuccessful and no further changes are made, Rhode Islanders can expect an estimated \$98.5 million dollars in foregone revenues from Fiscal Years

Under Current RI Law		
Tax Year	Estate Size: \$1,000,000	Estate Size: \$1,600,000
2014	Estate Taxes Owed: \$36,560	Estate Taxes Owed: \$75,120
Estate Size Threshold: \$921,655	Effective Tax Rate: 3.66%	Effective Tax Rate: 4.70%
2015	Estate Taxes Owed: \$0	Estate Taxes Owed: \$10,720
Estate Size Threshold: \$1,500,000	Effective Tax Rate: 0.00%	Effective Tax Rate: 0.67%
2019	Estate Taxes Owed: \$0	Estate Taxes Owed: \$6,770
Estate Size Threshold: \$1,561,719	Effective Tax Rate: 0.00%	Effective Tax Rate: 0.42%

Figure 1: Rhode Island Estate Tax examples.

¹ Institute on Taxation and Economic Policy, The Federal Estate Tax: An Important Progressive Revenue Source, December 2018.

2019 through 2024, this in addition to \$88.9 million in foregone revenues during Fiscal Years 2015 through 2018, due to the major changes implemented in 2015 (see *Figure 2*).

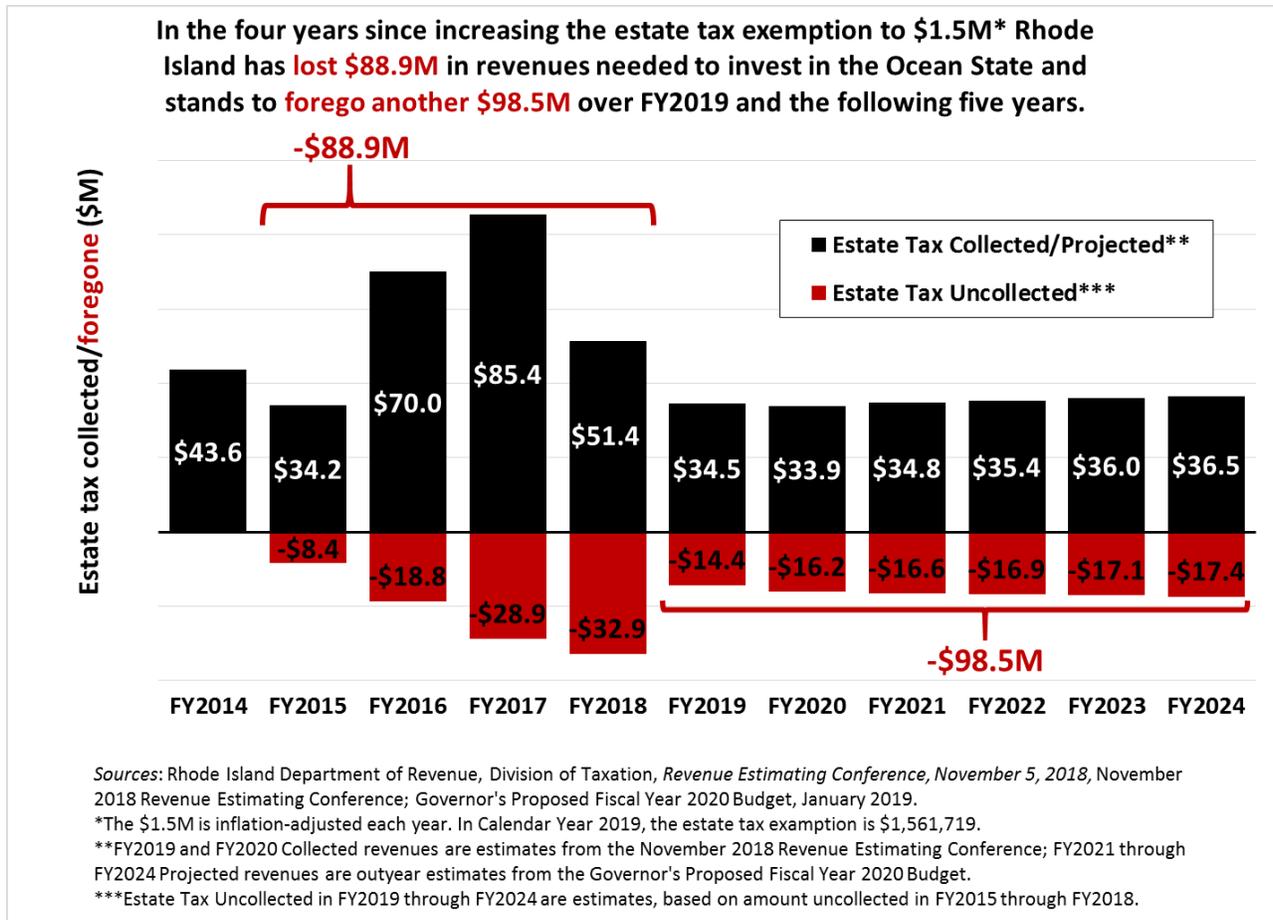


Figure 2: Rhode Island Estate Tax foregone revenue under current law.

If legislation repealing the Estate Tax is enacted, then the foregone revenues for Fiscal Years 2019 through 2024 will total an estimated \$275.1 million, benefitting at most a few hundred wealthy individuals (see *Figure 3*). With a likely \$50 million in foregone revenues each year, the elimination of the Estate Tax would likely result in at least \$0.5 billion in lost revenues over a decade.

Robust Estate Taxes help insure that the wealthiest among us pay their fair share of taxes and prevent them from avoiding paying taxes on certain types of wealth, such as on the increased value of capital gains. Repealing the Estate Tax would basically amount to over \$30 million annually in tax relief to those who least need it. Maintaining an Estate Tax will help ensure that all contribute their fair share towards sustaining and further building a thriving community here in Rhode Island. We urge you to vote against passing out of committee any of these four bills.

Elimination of the Estate Tax would...

...cost the State \$275.1 Million over six years...

...and benefit only an estimated 300 estates each year.

Figure 3: Impact of Repeal.