

Testimony in Opposition to House Bills 5215 and 6072
House Finance Committee
May 6, 2021

The Economic Progress Institute opposes **House Bills 5215** and **6072** which aim to erode Rhode Island’s already narrow Estate Tax, resulting in **the loss of tens of millions of dollars** in much-needed revenue.

The estate tax applies to at most a few hundred Rhode Island estates each year. For Rhode Island in Tax Year 2021, only estates with values in excess of \$1,595,156 are liable for paying any amount in estate taxes, and only the value *above* this amount is taxed. To raise this threshold to \$2.5 million for Tax Year 2023 and then to \$5.0 million for Tax Year 2025, as proposed by HB5215, and to \$5 million immediately, as proposed by HB6072, will likely leave only several dozen of the wealthiest estates liable.¹

From Tax Years 2009 through 2014, Rhode Island’s estate tax 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.

Figure 1 presents the effects of the change in policy for individual estates, showing the taxes and effective tax rates applicable to estates valued at \$1.0 million, \$1.6 million, and \$2.5 million as calculated for 2014 (before the change), 2021 (current law), and 2023 (as proposed by HB5215 and HB6072).

Estate Tax Examples Under Old, Current, and Proposed Law				
	Tax Year	Estate Size: \$1,000,000	Estate Size: \$1,600,000	Estate Size: \$2,500,000
Under Previous RI Law	2014	Estate Taxes Owed: \$36,560	Estate Taxes Owed: \$75,120	Estate Taxes Owed: \$143,600
	Estate Size Threshold: \$921,655	Effective Tax Rate: 3.66%	Effective Tax Rate: 4.70%	Effective Tax Rate: 5.74%
Under Current RI Law	2021	Estate Taxes Owed: \$0	Estate Taxes Owed: \$4,630	Estate Taxes Owed: \$73,110
	Estate Size Threshold: \$1,595,156	Effective Tax Rate: 0.00%	Effective Tax Rate: 0.29%	Effective Tax Rate: 2.92%
Under HB5215 or HB6072	2023	Estate Taxes Owed: \$0	Estate Taxes Owed: \$0	Estate Taxes Owed: \$0
	Estate Size Threshold: \$2,500,000	Effective Tax Rate: 0.00%	Effective Tax Rate: 0.00%	Effective Tax Rate: 0.00%

Figure 1: Rhode Island Estate Tax examples.

Whereas in 2014, a \$1.0 million estate would have had \$36,560 in taxes levied upon it, such an estate owes zero taxes today. **And whereas an estate valued at \$1.6 million would have owed \$75,120 under the old rules and only \$4,630 today—for an effective tax rate of under one-half of one percent—it would owe nothing if either bill became law.**

Under current rules, actual annual estate tax revenue for FY2016 through FY2020 and revenue estimates for FY2021 through FY2026 range from \$48 million to \$85 million, as shown in Figure 2. Although without a better understanding of the distribution of estates by size, we cannot estimate with any precision the fiscal impact of HB5215 or

Fiscal Year	Revenue Amount	Data Source
2016	\$ 70,028,952	Revenue Estimating Conference (REC) May 2017 Final
2017	\$ 85,428,550	REC May 2018 Final
2018	\$ 51,401,550	REC May 2019 Final
2019	\$ 48,019,188	REC May 2020 Final
2020	\$ 55,290,559	REC Nov 2020 Preliminary
2021	\$ 58,100,000	REC Nov 2020 Estimate
2022	\$ 50,300,000	REC Nov 2020 Estimate
2023	\$ 51,998,343	FY22 Recommended Budget Outyear Estimate (Appendix B)
2024	\$ 53,354,096	FY22 Recommended Budget Outyear Estimate (Appendix B)
2025	\$ 54,610,538	FY22 Recommended Budget Outyear Estimate (Appendix B)
2026	\$ 55,044,833	FY22 Recommended Budget Outyear Estimate (Appendix B)

Figure 2: Rhode Island Estate Tax revenue collected and estimated.

HB6072, any increase in the exemption threshold, whether to \$2.5 million or to \$5.0 million or otherwise, will cut into these expected revenues. Depending upon how many of the few hundred estates currently liable each year for the estate tax would fall below these elevated thresholds and how few would fall above, **revenue loss in the tens of millions of dollars can be expected over a few years and possibly annually.**

Rhode Islanders want a fair tax system, where everyone pays their share. We should be working towards a system where the income and wealth disparities do not continue to grow. Robust estate taxes help ensure that the wealthiest among us pay their fair share of taxes and that we have adequate revenue to fund the sorts of services—education, job training, quality healthcare and childcare, welcoming parks and beaches—that make Rhode Island a wonderful place to live and do business.

Although the infusion of federal relief funds will help greatly with immediate needs, we must make sure that we preserve our revenue base for the years ahead, after the one-time aid has been spent. We cannot afford to dispense with this critical source of funds provided each year by the estate tax. Now is not the time to weaken it further.

¹ See <http://www.dor.ri.gov/documents/Reports/Tax%20Report%20Final%203-6-2009.pdf>, p. 30. There are some more recent data for overall counts. Rhode Island’s Division of Taxation does not routinely release counts of estates subject to the estate tax. However, in May 2020, the Division reported to the Revenue Estimating Conference that changes to the estate tax enacted in 2014 “affected” in 2017, 742 tax returns 2017, 747 in 2018, and 781 in 2019. These counts include both (1) estates large enough to be liable for the tax under the new rules and a higher exemption threshold, and (2) estates that would have been large enough under the old rules but not large enough to qualify after the change. According to the Division of Taxation, only 308 estates were liable for the estate tax for 2017 and 486 for 2018; the count for 2019 has not been provided. This means that only 300-500 estates were above approximately \$1.6 million.