



State Fiscal Note for Bill Number: 2019-H-5310

Date of State Budget Office Approval: Wednesday, April 3, 2019

Date Requested: Monday, February 11, 2019

Date Due: Thursday, February 21, 2019

Impact on Expenditures

FY 2019 n/a
FY 2020 n/a
FY 2021 n/a

Impact on Revenues

FY 2019 \$(182,140)
FY 2020 \$(16,803,788)
FY 2021 \$(20,552,249)

Explanation by State Budget Office:

This bill would amend Rhode Island General Laws Chapter 44-22 entitled "Estate and Transfer Taxes – Liability and Computation" by adding to section 44-22-1.1 titled "Tax on net estate of decedent" a provision that exempts the first \$11,500,000 of net estate value from taxation for those decedents whose dates of death are on or after January 1, 2020. This exemption amount is indexed to changes in the Consumer Price Index for All Urban Consumers (CPI-U) effective January 1, 2021 and for each calendar year thereafter.

Under current law, Rhode Island imposes a tax on the net estate of decedents upon the transfer of said estate to the decedents' non-spousal heirs. The rate of tax on the net estate of decedents ranges from 0.8% to 16.0% depending on the value of the decedents' net estates. Rhode Island provides a credit against the tax liability generated from the taxation of the decedents' net estate values. For decedents with dates of death on or after January 1, 2018, the estate tax credit amount is \$66,810 which is equivalent to a full exemption amount of \$1,537,656. Thus, net estate values at or below this amount do not pay the estate and transfer tax.

Comments on Sources of Funds:

All estate and transfer taxes are general revenues.

Summary of Facts and Assumptions:

The effective date of the bill is upon passage but is applicable to the estates of decedents whose dates of death are on or after January 1, 2020.

The \$11,500,000 exemption amount specified in the bill is equivalent to an estate and transfer tax credit amount of \$1,306,800.

Based upon the accrual methodology employed by the Department of Administration, Office of Accounts and Controls (OAC) with respect to the estate and transfer tax, tax law changes that take effect in a future fiscal year reduce the amount of the receivable in the current fiscal year, thereby reducing current fiscal year revenue even though the tax law change impacts the next fiscal year. As a result, even though the increase in the estate tax exemption amount only applies to decedents whose dates of death are January 1, 2020 or later, a revenue impact will be realized in FY 2019 through this accrual process.

Based on the FY 2018 estate and transfer tax return file, ORA determined that 72.4943 percent of all estate and transfer tax cash payments were estimated tax payments and 27.5057 percent were final tax payments (payments that effectively

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mark an estate as having had all taxes paid). Further, ORA determined that in FY 2018, 1.0066 percent of estate and transfer tax estimated payments and 0.0 percent of estate and transfer tax final payments were made by estates whose decedents had died in the first six months of 2018 (i.e. January to June). None of the estates whose decedents had passed away in the first six months of 2018 had net taxable estate values in excess of \$11,500,000. Thus, in FY 2020, it is estimated that 1.0066 percent of FY 2020 estate and transfer tax cash collections will be impacted by passage of the bill. Furthermore, OAC's estate and transfer tax accrual methodology books as revenue in the current fiscal year 75 percent of the following fiscal year's estate and transfer tax cash collections. Thus, the reduction in FY 2020 estate and transfer tax cash collections also impacts FY 2019 estate and transfer tax revenues. Similarly, reductions in FY 2021 estate and transfer tax cash collections will also impact FY 2020 estate and transfer tax revenues through the same accrual channel.

The principals of the November 2018 Revenue Estimating Conference (REC) estimated that FY 2020 total estate and transfer tax cash collections at \$33,280,000. Using the FY 2018 percentage of total estate and transfer tax cash payments received as estimated payments and the percentage of estate and transfer tax cash collections that are generated by decedents whose death occurred in the first six months of the year, yields a reduction in FY 2020 estate and transfer tax cash collections of \$242,853 (i.e. $\$33,280,000 * 0.724943 * 0.010066$). Multiply this figure by 75 percent yields a reduction in FY 2019 estate and transfer tax revenues of \$182,140.

For FY 2020, the reduction in revenues from passage of the bill has three sources. First is the decline in estate and transfer tax estimated tax payments of \$242,853. Second, is the decrease in FY 2020 estate and transfer tax final payments that would be received from decedents who die in the first six months of 2020, which as noted above were 0.0 percent for the comparable period in FY 2018. Third, is the reduction in FY 2020 estate and transfer tax revenues that result from the reduction in FY 2021 estate and transfer tax cash collections.

Based on the FY 2018 estate and transfer tax return file, ORA determined that no estates of decedents with dates of death in the immediately preceding calendar year (in this case 2017) had a net taxable estate value of more than \$11,500,000. Thus, all estate and transfer tax revenues received from these estates would be foregone under the bill. ORA further determined that 57.4031 percent of estate and transfer tax final payments were generated from these same estates. ORA assumed that this same percentage would apply to FY 2021 estate and transfer tax final payments received from the estates of decedents with dates of death in 2020.

Similarly, based on the FY 2018 estate and transfer tax return file, 92.4218 percent of estate and transfer tax estimated payments were generated from the estates of decedents with dates of death in the immediately preceding calendar year and assumed that this percentage would apply to FY 2021. ORA further determined that estates of decedents with dates of death in 2017 that had a net taxable estate value of more than \$11,500,000 comprised 26.8568 percent of the total net taxable estate value for all estates that made estimated payments in FY 2018. ORA assumed that this percentage of estates with net taxable estate values of \$11,500,000 or more would prevail in FY 2021 and thus reduced the percentage of estates that would be

impacted by the bill by this percentage to yield 67.6003 percent (i.e. $0.924218 * (1 - 0.268568)$).

At the November 2018 REC, FY 2021 estate and transfer tax cash collections were estimated at \$34,078,720. ORA first applied the product of the percentage of estate and transfer tax cash collections that consist of estimated payments and the percentage of estate and transfer tax estimated payments that are generated from the estates of decedents with net taxable estates of less than \$11,500,000 and dates of death in the immediately preceding calendar year to yield a reduction in FY 2021 estate and transfer cash collections of \$16,700,742 that result from reduced estate and transfer estimated payments (i.e. $\$34,078,720 * 0.724943 * 0.676003$).

ORA then applied the product of the percentage of estate and transfer tax cash collections that consist of final payments and the percentage of estate and transfer tax final payments that are generated from the estates of decedents with net taxable estates of less than \$11,500,000 and dates of death in the immediately preceding calendar year to yield a reduction in FY 2021 estate and transfer cash collections of \$5,380,732 that result from reduced estate and transfer final payments (i.e. $\$34,078,720 * 0.275057 * 0.574031$).

Summing these two calculations yields a total reduction in FY 2021 estate and transfer tax cash collections of \$22,081,474 (i.e. $\$16,700,742 + \$5,380,732$). Multiplying this figure by 75 percent yields a reduction in FY 2020 estate and transfer tax revenues of \$16,561,106 (i.e. $\$22,081,474 * 0.75$). Thus, in total passage of the bill is projected to decrease FY 2020 estate and transfer tax revenues by \$16,803,788 (i.e. $\$16,561,106 + \$242,853$).

Finally, to determine the impact on FY 2021 estate and transfer tax revenues, ORA used the FY 2018 percentage of total estate and transfer tax cash payments received as estimated payments and the percentage of estate and transfer tax cash collections that are generated by decedents whose death occurred in the first six months of the year, yields a reduction in FY 2021 estate and transfer tax cash collections of \$248,682 (i.e. $\$34,078,720 * 0.724943 * 0.010066$).

Using the FY 2018 estate and transfer tax return file, ORA estimated that 97.7206 percent of estate and transfer tax final payments were generated from the estates of decedents with dates of death in the immediately two preceding calendar years (in this case 2016 and 2017, which is equivalent to 2020 and 2021 for FY 2022). ORA assumed that this same percentage would apply to FY 2022 estate and transfer tax final payments received from the estates of decedents with dates of death in 2020 and 2021.

Similarly, based on the FY 2018 estate and transfer tax return file, 5.6283 percent of estate and transfer tax estimated payments were generated from the estates of decedents with dates of death in the immediately preceding second calendar year, in this case CY 2016, and assumed that this percentage would apply to FY 2021. ORA further estimated that estates of decedents with dates of death in 2016 that had a net taxable estate value of more than \$11,500,000 comprised 42.9675 percent of the total net taxable estate value for all estates that made estimated payments in FY

2018. ORA assumed that this percentage of estates with net taxable estate values of \$11,500,000 or more would prevail in FY 2022 and thus reduced the percentage of estates that would be impacted by the bill by this percentage to yield 3.2100 percent (i.e. $0.056283 * (1 - 0.429675)$). To determine the amount of revenue lost by passage of the bill from decedents with net taxable estates of less than \$11,500,000 and dates of death in 2020 and 2021, ORA summed this percentage with the equivalent percentage calculated above to get 70.8102 percent of FY 2022 estate and transfer tax estimated payments that would be impacted by the bill (i.e. $67.6003\% + 3.2100\%$).

ORA took the Department of Administration, Office of Management and Budget's projected growth rate for FY 2022 estate and transfer tax revenues of 1.5673 percent and applied it to the November 2018 REC estimate for FY 2021 estate and transfer tax cash collections to yield FY 2022 estate and transfer tax cash collections of \$34,612,836.

ORA first applied the product of the percentage of estate and transfer tax cash collections that consist of estimated payments and the percentage of estate and transfer tax estimated payments that are generated from the estates of decedents with net taxable estates of less than \$11,500,000 and dates of death in the immediately two preceding calendar years to yield a reduction in FY 2022 estate and transfer cash collections of \$17,767,931 that result from reduced estate and transfer estimated payments (i.e. $\$34,612,836 * 0.724943 * 0.708102$).

ORA then applied the product of the percentage of estate and transfer tax cash collections that consist of final payments and the percentage of estate and transfer tax final payments that are generated from the estates of decedents with dates of death in the immediately preceding calendar year to yield a reduction in FY 2022 estate and transfer cash collections of \$9,303,492 that result from reduced estate and transfer final payments (i.e. $\$34,612,836 * 0.275057 * 0.977206$).

Summing these two calculations yields a total reduction in FY 2022 estate and transfer tax cash collections of \$27,071,423 (i.e. $\$17,767,931 + \$9,303,492$). Multiplying this figure by 75 percent yields a reduction in FY 2021 estate and transfer tax revenues of \$20,303,567 (i.e. $\$27,071,423 * 0.75$). Thus, in total passage of the bill is projected to decrease FY 2021 estate and transfer tax revenues by \$20,552,249 (i.e. $\$20,303,567 + \$248,682$).

The foregone revenue estimates detailed above assume that the state will continue to receive estate and transfer taxes from decedents that have estates with net taxable values above \$11,500,000 at the same rate as it did in FY 2018. To the extent that this is not the case and the state receives estate and transfer taxes from fewer decedents with net taxable estates of \$11,500,000 or more the revenue losses indicated above will be greater and could be the same as those incurred from the complete elimination of the estate and transfer tax. To the extent that the opposite occurs (i.e. the state receives estate and transfer taxes from more decedents with net taxable estates of \$11,500,000 or more) the revenue losses indicated above will be less.

*Summary of Fiscal
Impact:*

The Governor's FY 2020 Recommended Budget projects a closing surplus of \$2,948,779 in FY 2019 and \$688,004 in FY 2020. Passage of this bill would reduce the FY 2019 closing surplus and put the Governor's FY 2020 Recommended Budget out of balance and increase the projected deficit for FY 2021.

FY 2019: A revenue loss of \$182,140 is estimated.

FY 2020: A revenue loss of \$16,803,788 is estimated.

FY 2021: A revenue loss of \$20,552,249 is estimated.

Budget Office Signature:



Fiscal Advisor Signature:



