

State of Rhode Island
Budget Office
Department of Administration

State Fiscal Note for Bill
Number: 2020-H-7696

Date of State Budget Office Approval:
Date Requested: Wednesday, March 4, 2020
Date Due: Saturday, March 14, 2020

<i>Impact on Expenditures</i>		<i>Impact on Revenues</i>	
FY 2020	\$0	FY 2020	\$(78,008)
FY 2021	\$0	FY 2021	\$(27,381,473)
FY 2022	\$0	FY 2022	\$(29,735,686)

Explanation by State Budget Office: This bill would delete from Rhode Island General Laws (R.I. Gen. Laws) Chapter 44-22 entitled "Estate and Transfer Taxes – Liability and Computation" section 44-22-1 titled "Tax on net estate of decedents – Additional tax on postponed enjoyment – Deductions – Marital deduction," section 44-22-1.1 titled "Tax on net estate of decedent," and section 44-22-1.2 titled "Exemption – Missing persons in military action." The deletion of these sections would effectively eliminate the state's estate and transfer tax on the estates of all decedents regardless of the dates of death of the decedents.

In addition to repealing the above sections, the bill also repeals R.I. Gen. Laws Chapter 44-23 entitled "Estate and Transfer Taxes – Enforcement and Collection" and R.I. Gen. Laws Chapter 44-23.1 entitled "Uniform Estate tax Apportionment." Repeal of Chapter 44-23 would effectively strip the Department of Revenue, Division of Taxation of the ability to administer the state's estate and transfer tax and prohibit the collection of estate taxes owed on the net estate of decedents. Repeal of Chapter 44-23.1 would leave those estates that are subject to state's estate and transfer tax incapable of apportioning the amount of estate tax owed consistent with the value of assets held in the estate that are sited in Rhode Island.

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, 2020, the estate tax credit amount is \$69,515 which is equivalent to a full exemption amount of \$1,579,922. Thus, net estate values at or below this amount do not pay the estate and transfer tax. In addition, current law apportions the amount of estate tax owed by the estate of a non-resident decedent to be in proportion to the value of assets held in the estate with situs in Rhode Island to the value of all assets held in the estate.

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. This implies that all estate and transfer tax payments that have been made in FY 2020 that are not for "closed estates" would be refunded to the estates of the decedents that have made such payments. Further, all estate and transfer tax revenues estimated to be received in FY 2021 and beyond

Prepared by: Paul Dion / 4015748943 / paul.dion@revenue.ri.gov

Paul Dion

*Paul Dion
Budget Office*

would no longer be required to be made. Finally, it is unclear what effect passage of the bill would have on previously closed estates. Since the elimination of the estate and transfer tax is effectively retroactive to the establishment of the tax, it may be the case that executors of the "closed estates" would be able to file for a refund of estate and transfer taxes previously paid since the requirement to make those payments would no longer exist. As a result, the Office of Revenue Analysis (ORA) assumed that the implementation date of the bill would be for decedents whose death occurs on or after January 1, 2021.

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 ORA assumes that the elimination of the estate and transfer tax only applies to decedents whose dates of death are January 1, 2021 or later, a revenue impact will be realized in FY 2020 through this accrual process.

Based on the FY 2019 estate and transfer tax return file, ORA determined that 64.3862% of all estate and transfer tax cash payments were estimated tax payments and 35.6138% were final tax payments (payments that effectively mark an estate as having had all taxes paid). Further, ORA determined that in FY 2019, 0.4642% of estate and transfer tax estimated payments and 0.0% of estate and transfer tax final payments were made by estates whose decedents had died in the first six months of CY 2019 (i.e. January to June). Thus, in FY 2021, it is estimated that 0.4642% of FY 2021 estate and transfer tax cash collections will be foregone due to the passage of the bill. Furthermore, OAC's estate and transfer tax accrual methodology books as revenue in the current fiscal year 75% of the following fiscal year's estate and transfer tax cash collections. Thus, the reduction in FY 2021 estate and transfer tax cash collections also impacts FY 2020 estate and transfer tax revenues. Similarly, reductions in FY 2022 estate and transfer tax cash collections will also impact FY 2021 estate and transfer tax revenues through the same accrual channel.

The principals of the May 2020 Revenue Estimating Conference (REC) estimated that FY 2021 total estate and transfer tax cash collections at \$35,400,000. Using the FY 2019 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 \$104,010 (i.e. $\$35,400,000 * 0.643862 * 0.004642$). Multiply this figure by 75% yields a reduction in FY 2020 estate and transfer tax revenues of \$78,008.

For FY 2021, 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 \$104,010. Second, is the decrease in FY 2021 estate and transfer tax final payments that would be received from decedents who die in the first six months of 2021, which as noted above were 0.0 percent for the comparable period in FY 2019. Third, is the reduction in FY 2021 estate and transfer tax revenues that result from the reduction in FY 2022 estate and transfer tax cash collections.

Based on the FY 2019 estate and transfer tax return file, ORA determined that 66.3112% of estate and transfer tax final payments were generated from the estates of decedents with dates of death in the immediately preceding calendar year (in this case 2018). 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 2021. Similarly, based on the FY 2019 estate and transfer tax return file, ORA determined that 80.7584% 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 2022.

At the May 2020 REC, FY 2022 estate and transfer tax cash collections were estimated at \$48,100,000. 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 dates of death in the immediately preceding calendar year to yield a reduction in FY 2022 estate and transfer cash collections of \$25,010,684 that result from reduced estate and transfer estimated payments (i.e. $\$48,100,000 * 0.643862 * 0.807584$).

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 \$11,359,266 that result from reduced estate and transfer final payments (i.e. $\$48,100,000 * 0.356138 * 0.663112$).

Summing these two calculations yields a total reduction in FY 2022 estate and transfer tax cash collections of \$36,369,950 (i.e. $\$25,010,684 + \$11,359,266$). Multiplying this figure by 75% yields a reduction in FY 2021 estate and transfer tax revenues of \$27,277,463 (i.e. $\$36,369,950 * 0.75$). Thus, in total passage of the bill is projected to decrease FY 2021 estate and transfer tax revenues by \$27,381,473 (i.e. $\$27,277,463 + \$104,010$).

Finally, to determine the impact on FY 2022 estate and transfer tax revenues, ORA used the FY 2019 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, to yield a reduction in FY 2022 estate and transfer tax cash collections of \$143,762 (i.e. $\$48,100,000 * 0.643862 * 0.004642$).

Using the FY 2019 estate and transfer tax return file, ORA determined that 94.9431% 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 2017 and 2018, which is equivalent to 2021 and 2022 for FY 2023). ORA assumed that this same percentage would apply to FY 2023 estate and transfer tax final payments received from the estates of decedents with dates of death in 2021 and 2022. Similarly, based on the FY 2019 estate and transfer tax return file, ORA determined that 98.7931 percent of estate and transfer tax estimated payments were

generated from the estates of decedents with dates of death in the immediately two preceding calendar years and assumed that this percentage would apply to FY 2023.

ORA took the Department of Administration, Office of Management and Budget's projected growth rate for FY 2023 estate and transfer tax revenues of -15.7709% and applied it to the May 2020 REC estimate for FY 2022 estate and transfer tax cash collections to yield FY 2023 estate and transfer tax cash collections of \$40,500,000.

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 dates of death in the immediately two preceding calendar years to yield a reduction in FY 2023 estate and transfer cash collections of \$25,761,695 that result from reduced estate and transfer estimated payments (i.e. $\$40,500,000 * 0.643862 * 0.987931$).

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 2023 estate and transfer cash collections of \$13,694,203 that result from reduced estate and transfer final payments (i.e. $\$40,500,000 * 0.356138 * 0.949431$).

Summing these two calculations yields a total reduction in FY 2023 estate and transfer tax cash collections of \$39,455,898 (i.e. $\$25,761,695 + \$13,694,203$). Multiplying this figure by 75% yields a reduction in FY 2022 estate and transfer tax revenues of \$29,591,924 (i.e. $\$39,455,898 * 0.75$). Thus, in total passage of the bill is projected to decrease FY 2022 estate and transfer tax revenues by \$29,735,686 (i.e. $\$29,591,924 + \$143,762$).

The Governor's FY 2021 Recommended Budget projects a closing surplus of \$24,842,778 in FY 2020 and \$892,259 in FY 2021. Passage of this bill would reduce the FY 2020 closing surplus, put the Governor's FY 2021 Recommended Budget out of balance and increase the projected deficit for FY 2023.

Summary of Fiscal
Impact:

FY 2020: A revenue loss of \$78,008 is estimated.

FY 2021: A revenue loss of \$27,381,473 is estimated.

FY 2022: A revenue loss of \$29,735,686 is estimated.

Budget Office Signature:



Fiscal Advisor Signature:

