

Date of State Budget Office Approval:

Date Requested: Monday, February 10, 2014

Date Due: Thursday, February 20, 2014

Impact on Expenditures

FY 2014 n/a
 FY 2015 n/a
 FY 2016 n/a

Impact on Revenues

FY 2014 n/a
 FY 2015 \$(17,749,437)
 FY 2016 \$(23,610,487)

Explanation by State Budget Office:

This bill would amend Rhode Island General Law Chapter 44-22 entitled "Estate and Transfer Taxes – Liability and Computation" by converting the estate tax threshold exemption amount in effect at the time of a decedent's death to a full exemption amount of \$1,500,000 effective for decedents whose death occurs on or after January 1, 2015. In addition, beginning on January 1, 2016 and every year thereafter, the act would index the full exemption amount to the Consumer Price Index for all Urban Consumers (CPI-U) determined as of September 30 of the prior calendar year.

Under current law, a decedent who dies on or after January 1, 2014 but before January 1, 2015 is granted an estate tax threshold exemption amount of \$921,655. That is, any decedent who has a gross taxable estate amount of \$921,655 or less is not subject to the estate tax on that estate. Any decedent, however, who has a gross taxable estate value above \$921,655, is subject to the estate tax on the full gross taxable value of the estate.

For decedents who die on or after January 1, 2015 and before January 1, 2016, the estate tax exemption threshold would be equal to the 2014 estate tax exemption threshold increased by the percentage increase in the Consumer Price Index for all Urban Consumers (CPI-U) determined as of September 30 of the prior calendar year.

Comments on Sources of Funds:

All estate and transfer taxes are considered to be general revenue.

Summary of Facts and Assumptions:

The effective date of the bill is upon passage but the amended language in the bill makes the bill applicable to January 1, 2015 and thereafter.

The Office of Revenue Analysis (ORA) used estate tax returns that were closed in FY 2013 to estimate the impact of the bill. Based on these returns, ORA determined that the conversion of the estate tax threshold exemption amount in place for the FY 2013 period to a full exemption amount of \$1,500,000 would have reduced estate tax revenues by 72.3 percent.

Given the applicability of the act to decedents whose death occurs on or after January 1, 2015, there is no fiscal impact of the act in FY 2014. Given that the estates of decedents have nine months to file an estate tax return with the State, ORA assumed that the earliest the State would receive an estate tax return from a decedent who dies on or after January 1, 2015 would be October 1, 2015 which falls in FY 2016. Although three-quarters of the impact of converting the estate tax threshold

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exemption amount to a full exemption amount of \$1,500,000 would be realized on a cash basis in FY 2016, under the accrual methodology used by the Office of Accounts and Control and the Office of the Auditor General, the full amount is accrued back to FY 2015 as the underlying event that triggers the estate tax liability, namely the death of the decedent, occurs in that fiscal year.

For FY 2015, ORA used the Budget Office's forecast of FY 2016 estate tax revenue of \$32,233,582 to estimate foregone revenue of \$(23,319,249) from passage of the act. ORA accrued 75.0 percent of this estimated foregone revenue to FY 2015, or \$(17,489,437).

For FY 2016, ORA used the Budget Office's forecast of FY 2017 estate tax revenue of \$32,770,344 to estimate foregone revenue of \$(23,707,567) from passage of the act. ORA accrued 75.0 percent of this estimated foregone revenue to FY 2016, or \$(17,780,675). This amount of foregone revenue was added to the one-quarter of foregone revenue that was estimated for FY 2016 and not accrued back to FY 2015 to yield estimated total foregone revenue in FY 2016 of \$(23,610,487) (i.e., $\$(23,319,249) * 0.25 + \$(17,780,675)$).

The Governor's FY 2015 Recommended Budget projects an ending balance of \$400,000 for FY 2015 and an ending balance of \$(151.1) million in FY 2016. Passage of the act would put the Governor's budget out-of-balance in FY 2015 and increase the budget deficit in FY 2016

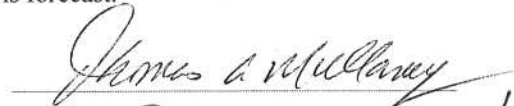
*Summary of Fiscal
Impact:*

FY 2014: No fiscal impact given the act's applicability to decedents whose death occurs on or after January 1, 2015.

FY 2015: A revenue loss of \$(17,749,437) is forecast.

FY 2016: A revenue loss of \$(23,610,487) is forecast.

Budget Office Signature:



Fiscal Advisor Signature:

