# State Fiscal Note for Bill Number: 2014-H-7140

***Date of State Budget Office Approval:*** **Wednesday, February 19, 2014**

***Date Requested:*** **Monday, February 10, 2014**

***Date Due:*** **Thursday, February 20, 2014**

| *Impact on Expenditures* | | *Impact on Revenues* | |
|---|---|---|---|
| FY 2014 | n/a | FY 2014 | n/a |
| FY 2015 | n/a | FY 2015 | $(12,206,870) |
| FY 2016 | n/a | FY 2016 | $(23,599,121) |

*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:*

****************** REVISED JUNE 4, 2014 *****************************

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 and estimated payments that were made 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 72.8 percent had the full exemption amount applied to all estates that were closed and all the estimated payments received.

ORA assumed that estimated payments received in a given fiscal year are from estates of decedents that died between October 1 and December 31 of the prior fiscal

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year (i.e., for FY 2013, it would be October 1 through December 31 of 2011) or January 1 of the prior fiscal year and September 30 of the current fiscal year (i.e., for FY 2013, it would be January1 through September 30 of 2012). Further analysis of the dates of death for estates that were closed in FY 2013 showed that 38.0 percent of estates closed were from decedents who died between October 1 and December 31 of the prior fiscal year and 62.0 percent of estates closed were from decedents who died between January 1 of the prior fiscal year and September 30 of the current fiscal year. ORA assumed that these percentages applied to the receipt of estimated estate tax payments in a given fiscal year. In addition, based on the FY 2013 estate tax file, ORA calculated that 47.4 percent of estate tax revenues received in a fiscal year was from closed estates while 52.6 percent of estate tax revenues received in a fiscal year was in the form of estimated payments.

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. In general, the executor of the estate of a decedent has nine months to file an estate tax return with the State. Based on the FY 2013 estate tax file, ORA determined that 2.5 percent of all estate tax revenue attributable to closed estates is from the estates of decedents that died on or after January 1 of the fiscal year. ORA assumed that this percentage would apply to all fiscal years. Furthermore, ORA assumed that 62.0 percent of the estimated estate tax payments received in a fiscal year was from the estates of decedents that died between January 1 of the prior fiscal year and September 30 of the current fiscal year. Thus, 2.5 percent of estate tax revenues received in FY 2015 would be directly impacted by the bill's full exemption provision of $1,500,000. The impact of the bill's full exemption provision upon estimated estate tax payments would not be realized until FY 2016 on a cash basis, and then only 62.0 percent of the FY 2016 estimated payments received would be affected, however, under the accrual methodology used by the Office of Accounts and Control and the Office of the Auditor General, the impact on revenues in FY 2016 is accrued back to FY 2015 for those decedents whose death occurred between January 1 and September 30, 2015.

For FY 2015, ORA used the estate tax revenue estimate adopted at the May 2014 Revenue Estimating Conference (REC) of $36,400,000 to estimate the decline in revenue from the bill's passage on closed estates of $309,705 (i.e., $36,400,000 * 0.474 * 0.025 * 0.728) (rounded). ORA used the Budget Office's forecast of FY 2016 estate tax revenues that was prepared for the May 2014 REC of $36,901,411 to estimate the revenue loss in estimated estate tax payments that are accrued back to FY 2015. ORA calculated the impact on FY 2016 revenues of the bill's full exemption amount of $1,500,000 to be a revenue decrease of $15,862,886 and accrued three-quarters of this revenue decrease back to FY 2015 to yield a total revenue impact for FY 2015 of $(12,206,870) (i.e., $(309,875) + $(15,862,866) * 0.75) (rounded). It should be noted that ORA took into account that 38.0 percent of estimated estate tax payments would be made estates whose decedents died between October 1 and December 31, 2014 and thus would not be impacted by the bill's proposed change to a $1,500,000 full exemption amount.

For FY 2016, ORA used the Budget Office's forecast of both FY 2016 and FY 2017 estate tax revenues. Based on the FY 2016 estimate of $36,901,411, ORA estimated that the revenues from closed estates of decedents who died on or after January 1, 2015 would decline by $7,095,696. Using the Budget Office forecast of estate tax revenues for FY 2017 of $37,516,651, ORA estimated that the impact of the bill's $1,500,000 full exemption amount would decrease revenues by $26,177,866 with three-quarters of this revenue loss being accrued back to FY 2016. Thus, the total revenue impact of the bill for FY 2016 is $(23,599,121) (i.e., $(7,095,696) + $(26,177,826) * 0.75) (rounded). It should be noted that for FY 2016 ORA used the full amount of estimated estate tax payments as it is assumed that all of these payments come from the estates of individuals who died on or after October 1, 2015 and thus would be subject to the provisions of the bill.

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 bill would put the Governor's budget out-of-balance in FY 2015 and increase the budget deficit in FY 2016.

*Summary of Fiscal Impact:*

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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 $(12,206,870) is forecast.

FY 2016: A revenue loss of $(23,599,121) is forecast.

*Budget Office Signature:* Thomas a Mullaney

*Fiscal Advisor Signature:*

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