

Testimony in OPPOSITION to Weakening the Estate Tax: H-5783

House Finance Committee

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The Economic Progress Institute opposes **H-5783** which would weaken Rhode Island’s already narrow Estate Tax, depriving the state of much-needed revenues, while **making our current inequitable tax structure even more inequitable**. This proposal would raise Rhode Island’s Estate Tax threshold to \$4.0 million, an amount over twice as much as the state’s current threshold.

Even after being scaled back almost a decade ago, Rhode Island’s Estate Tax reliably raises over \$30 million each year, sometimes much more, meaning that weakening this tax would result in **the loss of well over \$300 million dollars in revenues over the next decade**:

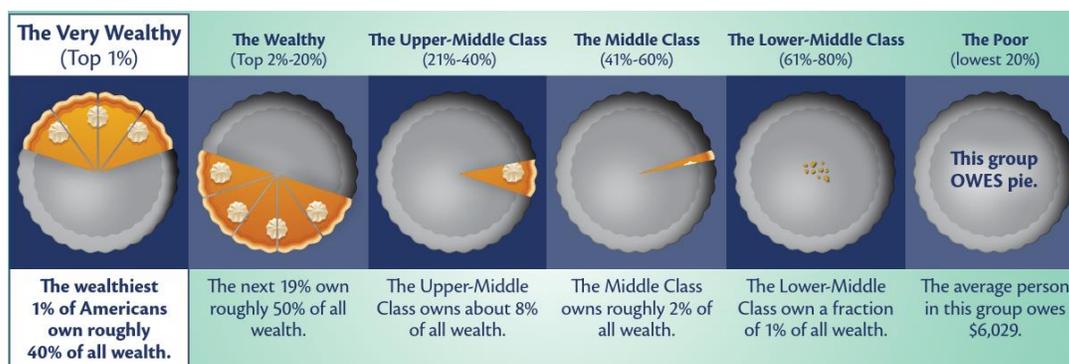
| Rhode Island Estate Tax Revenue by Fiscal Year (estimated for FY25) | | | | | | | | | |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 |
| \$70.0M | \$85.4M | \$51.4M | \$48.0M | \$55.3M | \$43.0M | \$39.3M | \$82.3M | \$38.6M | \$55.3M |

This is in addition to **hundreds of millions of dollars in forgone revenue** from the previous weakening of the tax. At a time when federal pandemic assistance is winding down, we need to ensure that we have sustainable sources of revenue going forward.

The Estate Tax affects only the wealthiest Rhode Islanders. The federal version of the tax now applies to under 2,000 American estates each year – under one-tenth of one percent – of which so few are from Rhode Island, often fewer than 10, that the IRS often does not reveal the exact number due to privacy concerns.¹ **The state version affects at most a few hundred Rhode Island estates. It is simply not the case that the Estate Tax harms average Rhode Islanders.**

The wealth gap in the United States has been growing over recent decades, and we know that the racial wealth gap has not declined, in part due to red-lining and other long-term policies and practices that hindered Black Americans in the effort to build wealth through home ownership.

Our current tax system benefits the already wealthy, and repealing the Estate Tax would give the wealthiest among us one more tax benefit they do not need.²



For Rhode Island in Tax Year 2025, **only estates of values in excess of \$1,802,431 are liable** for this tax, and **only the value above this amount is taxed**. From Tax Years 2009 through 2014, the 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. As illustration of these changes, the figure to the right shows the taxes and effective tax rates applicable to estates valued at \$1.0 million, \$1.6 million, \$1.8 million, and \$2.0 million as calculated for 2014, 2015, and 2025.

| Under Current RI Law | | | | |
|----------------------|---------------------------------------|--------------------------------|--------------------------------|---------------------------------|
| Tax Year | Estate Size: \$1,000,000 | Estate Size: \$1,600,000 | Estate Size: \$1,800,000 | Estate Size: \$2,000,000 |
| 2014 | Estate Taxes Owed: \$36,560 | Estate Taxes Owed: \$75,120 | Estate Taxes Owed: \$89,520 | Estate Taxes Owed: \$103,920 |
| | Estate Size Threshold: \$921,655 | Effective Tax Rate: 3.66% | Effective Tax Rate: 4.70% | Effective Tax Rate: 5.20% |
| 2015 | Estate Taxes Owed: \$0 | Estate Taxes Owed: \$10,720 | Estate Taxes Owed: \$25,120 | Estate Taxes Owed: \$39,520 |
| | Estate Size Threshold: \$1,500,000 | Effective Tax Rate: 0.00% | Effective Tax Rate: 0.67% | Effective Tax Rate: 1.98% |
| 2025 | Estate Taxes Owed: \$0 | Estate Taxes Owed: \$0 | Estate Taxes Owed: \$0 | Estate Taxes Owed: \$18,545 |
| | Estate Size Threshold: \$1,802,431 | Effective Tax Rate: 0.00% | Effective Tax Rate: 0.00% | Effective Tax Rate: 0.93% |

Whereas in 2014, a \$1.0 million estate would have had \$36,560 in taxes levied upon it, in 2025, an estate valued at \$1.8 million will have no taxes levied on it, and an estate valued at \$2.0 million will have **an effective tax rate of less than 1%**.

Reasonable Estate Taxes help ensure that the wealthiest among us pay their fair share of taxes and prevent them from avoiding paying taxes on certain types of wealth, such as on the increased value of capital gains – which otherwise would never get taxed at all. **Repealing the Estate Tax would basically amount to over \$40 million annually in tax relief to those who least need it.** Maintaining an Estate Tax will help ensure that all contribute their fair share towards sustaining and further building a thriving community here in Rhode Island. We urge you *not* to forward to the full House this proposal.

¹ Institute on Taxation and Economic Policy, The Federal Estate Tax: An Important Progressive Revenue Source, December 2018, <https://itep.sfo2.digitaloceanspaces.com/120618-The-Federal-Estate-Tax-Phillips-Wamhoff.pdf>.

² National Bureau of Economic Research, November 2017, "Household Wealth Trends in the United States, 1962 to 2016: Has Middle Class Wealth Recovered?" <https://www.nber.org/papers/w24085>.