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Bad economy may blunt effort to ease death taxes

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By Neil Downing

PROVIDENCE — If a Massachusetts resident dies leaving behind real estate, savings and other assets worth, say, \$750,000, there is no tax due.

If a Connecticut resident leaves the same-size estate, there is no tax due.

But if a Rhode Islander leaves a \$750,000 estate, the state may claim the first \$20,400 in taxes; heirs and other beneficiaries receive the remainder.

[Governor Carcieri](#) wants that to change, partly to make Rhode Island more competitive with its neighboring states.

But the proposal's fate may depend on state finances: Rhode Island faces a \$590-million budget gap for the year that starts July 1.

Rep. Steven M. Costantino, D-Providence, head of House Finance Committee — the [General Assembly](#)'s tax-writing panel — said Friday that legislators are still trying to produce a balanced budget. But he added, "I'm very concerned about ... the loss of potential revenue to the state."

At issue is the estate tax, also known as the death tax.

It applies to your "estate," which generally means the value of real estate, investments and certain other assets you leave behind.

If you are married and leave it all to your spouse, there generally is no tax.

But if you are widowed or otherwise single, the tax can kick in if the net value of your estate — after deducting funeral expenses, debts and certain other items — exceeds a certain threshold.

In general, the lower the threshold, the more likely than an estate will trigger the tax.

Connecticut's estate-tax threshold is \$2 million. In Massachusetts, it is \$1 million.

Rhode Island's is \$675,000, and has not been changed since 2001. Had it been linked to inflation, it would be about \$812,744 today.

Rhode Island's threshold is tied with New Jersey's for the lowest in the nation (among the 23 states that have death taxes), according to a report issued in March by Carcieri's tax-reform panel.

Partly for that reason, the panel recommended that the threshold be raised to \$1 million immediately.

Carcieri, a Republican, has recommended raising the threshold to \$1 million as of Jan. 1, 2010.

A bill (H 5515) sponsored by state Rep. J. Russell Jackson, D-Newport, and four other Democrats would raise the threshold to \$1 million retroactive to Jan. 1, 2009.

Testifying in support of that measure at a recent State House hearing, Providence lawyer David T. Riedel, chairman of the Rhode Island Bar Association's Committee on Probate and Trust, said, "I think everyone realizes that Rhode Island is the worst state in New England for estate taxes."

John C. Simmons, executive director of the Rhode Island Public Expenditure Council, a business-backed group that monitors state finances, said that raising the threshold to \$1 million is "a reasonable approach to making us comparable with other states in New England."

Patricia A. Thompson, former president of the Rhode Island Society of Certified Public Accountants, and tax partner at Piccerelli Gilstein & Co. LLP, a CPA firm in Providence, said it does not take much to amass an estate worth \$1 million, when real estate, retirement plans and other assets are counted, including ownership of a small business.

Setting the threshold at \$1 million effective in 2010 could cost the state about \$1.5 million in revenue for that fiscal year. (House fiscal advisers put the annualized loss in revenue at \$3 million for the year that starts July 1, 2010.)

That is something the state cannot afford right now, said Rick Harris, executive director of the Rhode Island chapter of the National Association of Social Workers.

"It is unlikely any other resources of revenue can be found in Rhode Island's portfolio that can compensate for this lost revenue," he said. "Given the economic outlook, huge deficit, and likely more cuts to social support services, we cannot support or even understand consideration of this" proposed change.

Kate Brewster, executive director of The Poverty Institute at the Rhode Island College School of Social Work, which analyzes tax and budget policies on behalf of low-income people, said, "We don't think any tax cuts that reduce revenues are a good idea in this difficult fiscal climate. However, we understand the desire to update the estate-tax exemption given the appreciation of assets like real estate."

Costantino said that the idea of raising the threshold has merit. "We want Rhode Island to be competitive," he said after a recent State House hearing. "But we also want to [take note of] these very difficult times the state is going through right now. . . . We are trying to preserve the revenues that we have."

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