The Economic Progress Institute

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Testimony in Opposition to House Bill 7383 & 7732
House Finance Committee
Submitted by Douglas Hall, Ph.D.
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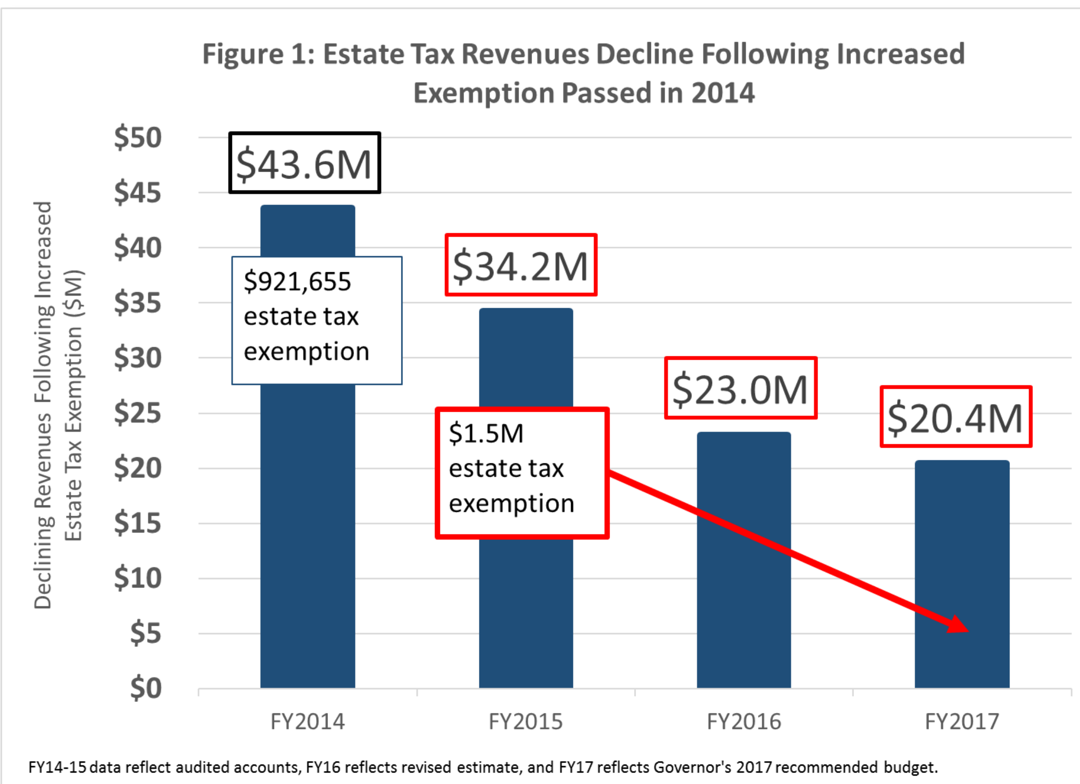
Mr. Chairman and Members of the House Finance Committee, The Economic Progress Institute opposes **House Bill 7383**, ***AN ACT RELATING TO TAXATION – ESTATE AND TRANSFER TAXES—LIABILITY AND COMPUTATION***, which exempts from the estate tax "property used in the conduct of a trade or business" to the value of five million dollars, and **House Bill 7732, *AN ACT RELATING TO TAXATION*** which exempts from the estate tax "the value of a qualified small business valued at an amount not greater than $5,000,000."

Rhode Island's estate tax provides revenues for programs and services critical to a strong economic foundation for the Ocean State. As evident in Figure 1, these revenues have been in freefall following changes enacted in the 2014 legislative session which increased the estate tax exemption to $1.5 million.



The two bills under consideration today would further undermine this critical revenue source, while providing no discernible public policy benefit.

This committee is considering dozens of bills this week, many of which provide tax breaks via deductions, exemptions, and the like. In considering all of these bills, we counsel that three criteria be applied to weigh the merits of proposed legislation:

1. The proposed legislation must advance a discernible and compelling public policy objective;
2. Due consideration must be paid to the revenue impact of the proposed legislation;
3. The beneficiaries of proposed changes should be clearly identified, specifically the impact of proposed changes on Rhode Islanders by income, race/ethnicity, and gender.

Analysis undertaken by the Office of Revenue Analysis shows that in 2014, there were only <u>28 estate tax returns</u> from estates valued greater than $3 million (unfortunately, the analysis did not break out the number of filings for estates valued at $5 million or greater).

We are very concerned that both bills open the door to manipulation by estate tax planners – to which those with estates valued over $1.5 million routinely turn.

In HB 7383, we see nothing about the definition of "property used in the conduct of a trade or business" that would prevent a wealthy person from shifting personal property to a corporate entity for the sole purpose of avoiding paying taxes on an asset.

Similarly, in HB 7732, we see nothing in the definition of a "qualified business interest" that would prevent the establishment of a corporate entity for the sole purpose of sheltering assets from the estate tax.

Moreover, even if the language in these bills were to be significantly tightened, exempting estates valued at $5 million or more from estate taxes benefits only the most wealthy Rhode Islanders, literally at the expense of the rest of us, who expect our public dollars to be used for our common good, to fund our schools, maintain our bridges, and protect the safety of the air we breathe and the water we drink.

For these reasons, we respectfully request that you not pass these two bills out of committee.