

CLIENT ALERT

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Rhode Island Estate Tax Exemption Increased

On June 30, 2009, Governor Donald Carcieri signed the Rhode Island 2010 fiscal year budget into law. Among the provisions of the budget is an increase in the Rhode Island estate tax exemption amount from \$675,000 to \$850,000 for estates of decedents dying on or after January 1, 2010.

The increase means that estates of Rhode Island residents dying in the calendar year 2010 will pay a state estate tax if the decedent's "net taxable estate" exceeds \$850,000.

"Net taxable estate" is generally defined as a decedent's gross estate less certain allowable deductions. Like the old law, the tax imposed under the new law is equal to the amount of the federal estate tax credit under the federal estate tax

laws in effect as of January, 2001. Thus, while the increase means that fewer estates will be subject to Rhode Island estate tax, those that are subject to the estate tax will pay tax on the net taxable estate at the same rates as under the old law.

As an additional benefit of the new law, the Rhode Island exemption will be tied to the Consumer Price Index, and is scheduled to increase with inflation. The exemption amount will increase as of January 1 of each year, beginning in 2011, rounded up to the nearest \$5.

The new Rhode Island law does not affect the federal exemption amounts. Under current federal law, an estate of a decedent dying in 2009 may pass \$3,500,000 free

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from federal estate tax. In 2010, the federal exemption amount is unlimited, and in 2011, the exemption amount is scheduled to be reduced to \$1,000,000. Legislation has been introduced, however, which would change the federal exemption amounts.

This new Rhode Island law means that individuals with net taxable estates in excess of \$850,000 in 2010 (within inflation adjustments in 2011 and beyond) may face an estate tax.

To discuss how this increase may affect your estate tax planning, contact a member of our Probate, Trust & Personal Planning Group.

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