

**Department of Legislative Services**  
 Maryland General Assembly  
 2018 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

Senate Bill 980 (Senator Muse)  
 Budget and Taxation

**Inheritance Tax - Exemption - Nieces and Nephews**

This bill exempts from the inheritance tax property that passes to or for the use by a niece or nephew of the decedent. **The bill takes effect July 1, 2018.**

**Fiscal Summary**

**State Effect:** General fund revenues decrease by \$26.2 million in FY 2019. Future year estimates reflect the projected payment schedule of State inheritance taxes and credits claimed against the estate tax. Nonbudgeted revenues and expenditures used to pay register of wills administrative expenses decrease by about \$8.7 million in FY 2019. General fund expenditures increase by a corresponding amount in order to replace these administrative expenses. Future year estimates reflect projected growth in expenditures.

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	(\$26.2)	(\$27.1)	(\$28.6)	(\$29.6)	(\$30.7)
NonBud Rev.	(\$8.7)	(\$8.8)	(\$9.0)	(\$9.2)	(\$9.4)
GF Expenditure	\$8.7	\$8.8	\$9.0	\$9.2	\$9.4
NonBud Exp.	(\$8.7)	(\$8.8)	(\$9.0)	(\$9.2)	(\$9.4)
Net Effect	(\$34.9)	(\$35.9)	(\$37.6)	(\$38.8)	(\$40.0)

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Current Law:** The State imposes a tax on property that passes at or after the death of an individual through an estate tax and an inheritance tax. In fiscal 2019, estate tax general fund revenues are projected to total \$130.7 million and inheritance taxes are projected to total \$56.3 million. Estates may generally claim a credit against the estate tax for the amount of inheritance taxes paid.

The Maryland inheritance tax is applied to the receipt of property from a decedent's estate. Chapter 497 of 2000 exempted from the inheritance tax property that is passed to or for the use of direct beneficiaries and siblings. These include a grandparent, parent, spouse, child or other lineal descendant, spouse of a child or other lineal descendant, stepparent, stepchild, brother or sister of the decedent, or a corporation if all of its stockholders consist of family members as described above. Child and parent include a former stepchild and former stepparent.

Collateral beneficiaries include all other beneficiaries and are taxed at the rate of 10% unless the property, decedent, or beneficiary qualifies for an exemption. Estates may generally claim a credit against the estate tax for the amount of inheritance taxes paid.

**State Fiscal Effect:** The bill exempts from inheritance tax property that is passed to a niece or nephew of the decedent. As a result, general fund revenues decrease by \$26.2 million in fiscal 2019. The general fund revenue loss reflects a decrease in inheritance tax revenues of \$29.7 million, partially offset by a \$3.5 million increase in estate tax revenues. Estates may generally claim a credit against the estate tax for the amount of inheritance taxes paid. An estate, however, may only claim the amount of inheritance taxes paid up to the estate tax liability imposed. **Appendix 1** shows the fiscal impact of the bill in fiscal 2019 through 2023.

A reduction in inheritance taxes will reduce revenues that cover administrative expenses for the registers of wills. As a result, nonbudgeted revenues and expenditures decrease by \$8.7 million and general fund expenditures increase by \$8.7 million in fiscal 2019, as shown in Appendix 1.

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## Additional Information

**Prior Introductions:** None.

**Cross File:** Although not designated as a cross file, HB 1374 (Delegate McMillan – Ways and Means) is identical.

**Information Source(s):** Comptroller's Office; Register of Wills; Department of Legislative Services

**Fiscal Note History:** First Reader - March 9, 2018  
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## Appendix 1 – Fiscal Impact of Legislation (\$ in Millions)

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<b><u>Revenues</u></b>	<b><u>FY 2019</u></b>	<b><u>FY 2020</u></b>	<b><u>FY 2021</u></b>	<b><u>FY 2022</u></b>	<b><u>FY 2023</u></b>
<b>General Fund Revenues</b>					
Estate Tax	\$3.5	\$3.0	\$2.0	\$1.5	\$1.0
Inheritance Tax	(29.7)	(30.1)	(30.6)	(31.1)	(31.7)
<b>General Fund Total</b>	<b>(\$26.2)</b>	<b>(\$27.1)</b>	<b>(\$28.6)</b>	<b>(\$29.6)</b>	<b>(\$30.7)</b>
<b>Nonbudgeted Revenues</b>					
Register of Wills	(\$8.7)	(\$8.8)	(\$9.0)	(\$9.2)	(\$9.4)
<b>Total Revenues</b>	<b>(\$34.9)</b>	<b>(\$35.9)</b>	<b>(\$37.6)</b>	<b>(\$38.8)</b>	<b>(\$40.0)</b>
<b><u>Expenditures</u></b>					
<b>General Fund Expenditures</b>					
Register of Wills	\$8.7	\$8.8	\$9.0	\$9.2	\$9.4
<b>Nonbudgeted Expenditures</b>					
Register of Wills	(8.7)	(8.8)	(9.0)	(9.2)	(9.4)
<b>Total Expenditures</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Net Effect</b>	<b>(\$34.9)</b>	<b>(\$35.9)</b>	<b>(\$37.6)</b>	<b>(\$38.8)</b>	<b>(\$40.0)</b>