

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 66 (Delegate Workman)
Ways and Means

Referred to Budget and Taxation

Inheritance Tax - Tax Rate - Sibling of Decedent

This amended bill alters the inheritance tax rate from 10% to 7.5% for property passing from a decedent to or for the use of a sibling of the decedent.

This bill is effective July 1, 1997, and applies to decedents dying on or after July 1, 1997.

Fiscal Summary

State Effect: General fund inheritance tax revenues would decrease by an estimated \$3.1 million in FY 1998; this decrease would be partially offset by an indeterminate increase in estate tax revenues as discussed below. Future year decreases would reflect growth in death tax collections. Expenditures would not be affected.

Local Effect: None.

Small Business Effect: None. This bill would not directly affect small businesses.

Fiscal Analysis

Background: The inheritance tax is assessed either at a direct rate of 1% or a collateral rate of 10%. The rate assessed depends upon the relationship of the decedent to the recipient(s). The State general fund receives 75% of inheritance tax revenues while the remaining 25% goes to Register of Wills offices. Estates larger than \$600,000 in size are also subject to an estate tax. Any estate subject to both an inheritance tax and an estate tax may receive a credit against the estate tax for any inheritance tax paid.

State Revenues: Siblings of decedents are currently taxed at the 10% collateral rate. Total collateral tax collections for fiscal 1998 are estimated at \$67 million, of which \$50.3 million would be direct revenues for the State general fund. An estimated 18% of collateral tax

revenues collected are paid by siblings. Reducing the tax rate to 7.5% for siblings would decrease State inheritance tax revenues by an estimated \$2.3 million in fiscal 1998. Decreasing the collateral tax rate for siblings of decedents from 10% to 7.5% would decrease revenues for Register of Wills offices by an estimated \$750,000 in fiscal 1998. The total decrease in inheritance tax revenues would be \$3.1 million in fiscal 1998.

For estates greater than \$600,000 in value, any inheritance tax reduction would be offset by an increase in the estate tax paid. The offsetting increase in estate taxes cannot be reliably estimated, as it depends on distributions to siblings from estates valued over \$600,000. The amount of these distributions is not known. The total overall decrease in inheritance tax revenues would be \$3.1 million in fiscal 1998. Since the Register of Wills return over \$10 million of commissions to the general fund annually, any loss of commissions will flow through to the general fund.

Information Sources: Register of Wills, Comptroller of the Treasury (Compliance Division), Department of Fiscal Services

Fiscal Note History: First Reader - February 11, 1997

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