HB 314

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 314 (Delegate Workman, *et al.*)
Ways and Means

Inheritance Tax - Tax Rate - Sibling of Decedent

This bill reduces the inheritance tax rate from 10% to 8% for property passing from a decedent to or for the use of a sibling of the decedent.

This bill is effective July 1, 1998, and is applicable to decedents dying on or after that date.

Fiscal Summary

State Effect: General fund revenues would decrease by an estimated $400,000 in FY 1999. Future year revenue decreases reflect revenue accumulations and growth in inheritance tax collections. Expenditures would not be affected.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	($0.4)	($0.8)	($1.3)	($1.5)	($1.6)
GF Expenditures	0	0	0	0	0
Net Effect	($0.4)	($0.8)	($1.3)	($1.5)	($1.6)

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: None.

Small Business Effect: None.

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 $625,000 in size are also subject to an estate tax (by 2006, estates over $1,000,000 will pay the 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 1999 are estimated at $71.9 million, $53.9 million of which would be direct revenues for the State general fund. An estimated 18% of collateral tax revenues collected are paid by siblings of decedents, therefore a reduction in the tax rate to 8% for these individuals would decrease general fund revenues by an estimated $1.9 million for distributions from estates opened in fiscal 1999. Decreasing the collateral tax rate for siblings of decedents from 10% to 8% would decrease revenues for Register of Wills offices by an estimated $600,000.

According to a 1988 study of death taxes by the Department of Fiscal Services, it is estimated that 30% of this reduction in inheritance tax revenues would be realized in the first fiscal year, 60% in the second year, 90% in the third year, and 100% in the fourth year and future fiscal years. Assuming that 30% of the expected reduction in inheritance tax revenues would be realized in fiscal 1999, general fund revenues would decrease by $600,000 and revenues for the Register of Wills would decrease by $200,000. The total decrease in inheritance tax revenues would be $800,000 for fiscal 1999.

Any inheritance tax reduction would be offset by an increase in the estate tax paid for estates valued at greater than $625,000 in tax year 1998, $650,000 in 1999, $675,000 in 2000 and 2001, and $700,000 in 2002 and 2003. According to a 1995 study by the Department of Fiscal Services, approximately 49% of inheritance tax revenues would be recovered through the estate tax if the inheritance tax is repealed. Assuming this recovery of revenues applies to a rate reduction for the siblings of decedents, estate tax revenues would increase by $1.3 million. As with the decrease in inheritance tax revenues, it is assumed that 30% of this increase in estate tax revenues would be realized in the first fiscal year, 60% in the second year, 90% in the third year, and 100% in the fourth year and future fiscal years. This would make the total increase in estate tax revenues an estimated $400,000 in fiscal 1999.

The total decrease in State revenues would be an estimated $400,000 in fiscal 1999. Future year estimates reflect revenue accumulations and 5% growth in collateral inheritance tax collections.

Information Sources: Comptroller of the Treasury (Bureau of Revenue Estimates), Register of Wills, Department of Legislative Services

Fiscal Note History: First Reader - February 13, 1998

Analysis by:	Ryan Bishop	Direct Inquiries to:
Reviewed by:	David F. Roose	John Rixey, Coordinating Analyst
		(410) 841-3710
		(301) 858-3710