

Department of Legislative Services
 Maryland General Assembly
 1999 Session

FISCAL NOTE

House Bill 291 (Delegate Crvor)

Ways and Means

Inheritance Tax - Tax Rate - Family of Decedent

This bill alters the inheritance tax rate from 1% to 1/2% for property passing from a decedent to or for the use of a grandparent, parent, spouse, a child or other lineal descendant, a stepparent, stepchild, or a specified corporation of the decedent. The bill also alters the inheritance tax rate from 10% to 5% for property passing from a decedent to or for the use of a sibling of the decedent.

The bill is effective July 1, 1999 and shall be applicable to decedents dying on or after that date.

Fiscal Summary

State Effect: General fund revenues would decrease by an estimated \$6.7 million in FY 2000. Future year revenue decreases reflect revenue accumulations and growth in inheritance tax collections. Expenditures would not be affected.

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	(\$6.7)	(\$16.7)	(\$17.5)	(\$17.6)	(\$19.2)
GF Expenditures	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$6.7)	(\$16.7)	(\$17.5)	(\$17.6)	(\$19.2)

Note: () = decrease; GF = general funds

Local Effect: None.

Small Business Effect: None.

Fiscal Analysis

Background: The inheritance tax is assessed 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). Under current law the general fund receives 75% of inheritance tax revenues, with the remaining 25% going to the Registers of Wills. To the extent the revenues received by the Registers of Wills exceed expenditures, the excess (normally about 80%) is remitted back to the general fund. Any estate subject to both the estate tax and the inheritance tax may receive a credit against the estate tax for any inheritance tax paid. Inheritance tax reductions would therefore be offset by an increase in the estate tax paid for estates valued greater than \$675,000 in tax years 2000 and 2001. The size of the estate necessary to be subject to the estate tax increases each year until 2006 when only estates with a gross value of greater than \$1 million are subject to the estate tax.

State Effect:

Collateral Tax Revenues

Siblings are currently taxed at the 10% collateral tax rate. Total collateral tax revenues for fiscal 2000 are estimated at \$73.9 million. An estimated 18% of collateral tax revenues collected are paid by siblings. Therefore, reducing the tax rate to 5% for siblings would decrease collateral tax collections by \$2.8 million in fiscal 2000.

Direct Tax Revenues

Decedents subject to the 1% direct tax rate are grandparents, parents, spouses, children or other lineal decedents, stepparents, or stepchildren. Corporations in which all the stockholders consist of the above mentioned decedents and the first \$2,000 of a savings account that passes from the decedent, by survivorship, to a spouse of the lineal decedent held jointly are also subject to the direct inheritance tax rate. Total direct tax collections for fiscal 2000 are estimated at \$30.8 million. Altering the direct tax rate from 1% to 1/2% would decrease direct tax collections by \$6.5 million in fiscal 2000.

Estate Tax Revenues

The inheritance tax revenue loss may be offset by an increase in estate tax collections. Any estate valued greater than \$675,000 in tax years 2000 and 2001 is subject to both the estate tax and the inheritance tax. The estate tax paid, however, is reduced by the amount of the inheritance tax paid. Due to the direct and collateral tax rate reductions, estate tax revenues will increase by \$2.7 million in fiscal 2000.

Combining the inheritance tax loss with the estate tax gain results in a net general fund revenue loss of \$6.7 million in fiscal 2000. The decrease in revenues due to this bill will not affect funding for the Registers of Wills.

For fiscal 2000-2003, the estimates reflect the December Bureau of Revenue Estimates' forecast and growth rates for inheritance tax revenues. The fiscal 2004 estimate reflects 5.6% growth rate.

Information Source(s): Department of Legislative Services

Fiscal Note History: First Reader - February 10, 1999

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