SB 501

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

Senate Bill 501 (Senator Van Hollen, *et al.*)
Budget and Taxation

Inheritance Tax - Tax Rate - Siblings, Nieces, and Nephews of Decedent

This bill alters the inheritance tax rate from 10% to 1% for siblings, nieces, and nephews. The bill also alters the conditions under which a corporation may inherit the decedent's estate at a 1% inheritance tax rate.

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

Fiscal Summary

State Effect: General fund revenues would decrease by an estimated $10.9 million in FY 2000. Future year revenue decreases reflect revenue accumulations and growth in inheritance tax collections. Transportation Trust Fund (TTF) revenues could potentially increase. Expenditures would not be affected.

($ in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	($10.9)	($25.8)	($26.6)	($26.9)	($29.0)
GF Expenditures	$0.0	$0.0	$0.0	$0.0	$0.0
Net Effect	($10.9)	($25.8)	($26.6)	($26.9)	($29.0)

Note: ( ) = decrease; GF = general funds;

Local Effect: Potential minimal increase in local income tax revenues. Expenditures would not be affected.

Small Business Effect: Minimal. Corporations consisting of the surviving heirs including brothers, sisters, nieces, and nephews will be subject to a lower inheritance tax rate but could experience higher corporate income tax liability.

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 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: Siblings, nieces, and nephews are currently taxed at the 10% collateral rate. Total collateral tax revenues for fiscal 2000 are estimated at $73.9 million. An estimated 18% of collateral tax revenues are paid by siblings and an estimated 27% are paid by nieces and nephews. Reducing the tax rate to 1% for siblings would decrease collateral tax revenues by $5.6 million while reducing the rate for nieces and nephews would decrease revenues by an estimated $8.5 million. The total decrease in collateral tax revenues would be $14.1 million in fiscal 2000.

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 collateral tax rate reduction, estate tax revenues will increase by $3.2 million in fiscal 2000.

Combining the inheritance tax loss with the estate tax gain results in a net general fund revenue loss of $10.9 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 a 5.6% growth rate.

The bill also alters the provision for corporations to be subject to the 1% direct rate by including stockholders who are siblings, nieces, and nephews. Currently, it is unknown how many corporations would have their inheritance tax rate decreased from 10% to 1%. However, the impact from this tax reduction is expected to be minimal. While these corporations may experience a decrease in their inheritance tax liability, they could experience an increase in their income tax liability, either personal or corporate, due to a potential decrease in deductions for taxes paid. Personal income tax revenues are distributed to the general fund and corporate income tax revenues are distributed to the general fund (approximately 76%) and the Transportation Trust Fund.

Local Revenues: Local income tax revenues could potentially increase by 30%-60% of any increase in State personal income taxes.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Legislative Services

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