

Department of Legislative Services  
 Maryland General Assembly  
 1999 Session

FISCAL NOTE

House Bill 982 (Delegate Patterson. *et al.*)

Ways and Means

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Inheritance Tax - Repeal

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This bill repeals the inheritance tax and alters the calculation of the Maryland estate tax.

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

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Fiscal Summary

**State Effect:** General fund revenues would decrease by an estimated \$30.0 million in FY 2000. Future revenue decreases reflect revenue accumulations and growth in inheritance tax collections. General fund expenditures would increase by \$5.6 million in FY 2000 to fund the Registers of Wills. Therefore, the net general fund impact is a decrease of \$35.6 million in FY 2000.

(\$ in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	(\$30.0)	(\$72.2)	(\$75.0)	(\$74.9)	(\$82.2)
GF Expenditures	\$5.6	\$5.7	\$5.7	\$6.2	\$6.2
Net Effect	(\$35.6)	(\$77.9)	(\$80.7)	(\$81.1)	(\$88.4)

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

**Local Effect:** None.

**Small Business Effect:** Potential minimal. Corporations consisting of surviving heirs will no longer be subject to inheritance taxes but could experience higher corporate income tax liability.

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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 Revenues:**

#### *Collateral and Direct Tax Revenues*

Under current law those who are not considered to be direct heirs of the decedent are taxed at a 10% rate. Total collateral tax revenues for fiscal 2000 are estimated at \$73.9 million. Repealing the collateral tax rate will result in a general fund revenue loss of \$31.4 million in fiscal 2000, representing 42.5% of those decedents whose date of death was on or after July 1, 1999 and had their returns filed in fiscal 2000.

Those who are considered to be direct heirs of the decedent are taxed at a 1% rate. Total direct tax revenues for fiscal 2000 are estimated at \$30.8 million. Repealing the direct tax rate will result in a general fund revenue loss of \$13.1 million in fiscal 2000, representing 42.5% of those decedents whose date of death was on or after July 1, 1999 and had their returns filed in fiscal 2000.

Combining the collateral tax loss with the direct tax loss results in a net general fund revenue loss of \$44.5 million in fiscal 2000.

#### *Estate Tax Revenues*

The inheritance tax 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 inheritance tax paid. Due to the inheritance tax repeal, estate tax revenues will increase by \$14.5 million in fiscal 2000.

Combining the inheritance tax loss with the estate tax gain results in a net general fund revenue loss of \$30.0 million in fiscal 2000. This loss increases to \$82.2 million in fiscal

2004.

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

### **State Expenditures:**

#### *Registers of Wills*

Under current law the Register of Wills for each county collects the inheritance tax and remits to the Comptroller of the Treasury an amount equal to the inheritance tax paid less a 25% commission. This amount is then placed into the general fund. At the end of the fiscal year, each Register of Wills is required by law to submit a report indicating their operating expenses and revenues (processing fees collected plus the 25% commission). If revenues exceed expenditures, the difference is remitted to the Comptroller and is placed into the general fund. If expenditures exceed revenues, the Comptroller makes a deficiency appropriation from the general fund.

The table below shows the Registers of Wills total operating expenditures and the processing fees the Registers of Wills are expected to collect during the next five fiscal years under current law. The net effect is the general fund appropriation required to cover the Registers of Wills' operating costs and they would no longer be receiving the 25% commission. Future year expenditures reflect full salaries with 3.5% annual increases and 3% employee turnover; and 1% annual increases in ongoing operating expenses.

(\$ in millions)	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Operating Expenses	\$12.2	\$12.6	\$13.0	\$13.7	\$14.1
Fees Collected	6.6	6.9	7.3	7.5	7.9
Net Effect	\$5.6	\$5.7	\$5.7	\$6.2	\$6.2

Under current law if a corporation consists of all heirs of the decedent, the corporation is subject to inheritance taxes. Currently, it is unknown how many corporations would have their inheritance tax repealed. 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 paid. Personal income tax revenues are distributed to the general fund and corporate income tax revenues are distributed to the

general fund (approximately 75%) and the Transportation Trust Fund.

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

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

**Fiscal Note History:** First Reader - March 8, 1999

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Analysis by: Joanna Rooney

Direct Inquiries to:

John Rixey, Coordinating Analyst

(410) 946-5510

(301) 970-5510