SB 398

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE
Revised

Senate Bill 398 (Senator Munson, *et al.*)
Budget and Taxation

Inheritance Tax Rate

The bill alters the inheritance tax for property that passes from a decedent to or for the use of sibling heirs from 10% to 5%, phased-in over the next three years (a 2% decrease in the collateral tax rate for each of the first two years and a 1% decrease in the third year). In addition, the bill decreases the inheritance tax for property that passes from a decedent to or for the use of direct heirs from 1% to .9%.

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

Fiscal Summary

State Effect: General fund revenues would decrease by an estimated $1.8 million in FY 2000. Future year 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	($1.8)	($6.7)	($8.0)	($8.1)	($8.7)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	($1.8)	($6.7)	($8.0)	($8.1)	($8.7)

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. At the end of the fiscal year, each Register of Wills is required to submit a report indicating their operating expenses and revenues. If revenues exceed expenditures, the difference is remitted to the Comptroller (normally about 80%) and placed into the general fund. If expenditures exceed revenues, the Comptroller makes a deficiency appropriation from 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 $1.0 million are subject to the estate tax.

State Effect:

Collateral Tax Revenue Loss

Siblings 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 of decedents. Reducing the collateral tax rate for siblings from 10% to 5%, phased-in over three years, will decrease collateral tax revenues by $1.1 million in fiscal 2000; $5.4 million in fiscal 2001; $7.0 million in fiscal 2002; $7.3 million in fiscal 2003; and $7.6 million in fiscal 2004.

Direct Tax Revenue Loss

Direct heirs of the decedent are currently taxed at a 1% rate. Total direct tax revenues for fiscal 2000 are estimated at $30.8 million. Reducing the direct tax rate from 1% to 0.9% will reduce direct tax revenues by $1.3 million in fiscal 2000; $3.3 million in fiscal 2001; $3.5 million in fiscal 2002; $3.7 million in fiscal 2003; and $3.9 million in fiscal 2004.

Combined Inheritance Tax Revenue Loss

Combining the collateral tax revenue loss with the direct tax revenue loss results in a net inheritance tax revenue loss of $2.4 million in fiscal 2000; $8.7 million in fiscal 2001; $10.5 million in fiscal 2002; $11.0 million in fiscal 2003; and $11.5 million in fiscal 2004.

Estate Tax Revenue Gain

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 $0.6 million in fiscal 2000; $2.0 million in fiscal 2001; $2.5 million in fiscal 2002; $2.5 million in fiscal 2003; and $2.8 million in fiscal 2004.

Net Effect

Combining the inheritance tax loss with the estate tax gain results in a net general fund revenue loss of approximately $1.8 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. This general fund revenue loss increases to $8.7 million in fiscal 2004.

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.

Registers of Wills

The bill also makes technical changes related to deficiencies for the Registers of Wills. If the fees and receipts received by a Register of Wills for providing various services are insufficient in any fiscal year, rather than in any month, to pay for all or part of the Register of Wills' operating expenses and authorized salaries, the deficiency shall be funded from the inheritance taxes previously remitted to the Comptroller of the Treasury by the Register during that fiscal year. If the inheritance taxes remitted by the Register of Wills for a fiscal year, rather than each month, are insufficient to cover its operating expenses, the Comptroller of the Treasury will make up the deficiency from excess fees remitted from all other Registers of Wills. Consequently, the deficiency would no longer be funded through an appropriation from the general fund. Therefore, the decrease in revenues due to this bill will not affect funding for the Registers of Wills.

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

Fiscal Note History:	First Reader - February 19, 1999
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