Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 130 (Delegate Cryor)
Ways and Means

Inheritance Tax - Tax Rate - Family of Decedent

This bill alters the inheritance tax rate from 0.9% to 0.5% for property passing from a decedent to or for the use of a grandparent, parent, spouse, child or other lineal (also called "direct") descendant, and certain corporations consisting of lineal descendants. The bill also accelerates the reduction of the collateral inheritance tax rate for property that passes from a decedent to or for the use of the decedent's siblings.

The bill takes effect July 1, 2000.

Fiscal Summary

State Effect: General fund revenues would decrease by an estimated $3.6 million in FY 2001, based on lower inheritance tax collections partially offset by higher estate tax collections. The decrease grows to $8.0 million in FY 2002, reflecting full-year collections. Future revenue patterns reflect projected growth in inheritance tax collections and confluence with existing law. Expenditures would not be affected.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	($3.6)	($8.0)	($7.0)	($7.9)	($8.6)
GF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	($3.6)	($8.0)	($7.0)	($7.9)	($8.6)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: This bill alters the inheritance tax rate from 0.9% to 0.5% for property passing from a decedent to or for the use of a grandparent, parent, spouse, child or other lineal descendant, stepparent, stepchild of the decedent, or corporations consisting of such lineal descendants of the decedent.

The bill also reduces the inheritance tax rate for property that passes from a decedent to or for the use of the decedent's siblings. Currently, the collateral tax rate for brothers and sisters is 8% of the clear value of the property for decedents dying on or after July 1, 1999, but before July 1, 2000; 6% for decedents dying on or after July 1, 2000, but before July 1, 2001; and 5% for decedents dying on or after July 1, 2001. Under the bill, the reduction to 5% would be accelerated, taking effect for decedents dying on or after July 1, 2000.

Current Law: Maryland imposes two death taxes. The inheritance tax is applied to the receipt of property from a decedent's estate. For decedents dying on or after July 1, 1999, direct beneficiaries are taxed at the rate of 0.9% (reduced from 1% under Chapter 635 of 1999). Direct beneficiaries include grandparents, parents, spouses, children, other lineal descendants, stepparents, and stepchildren, or a corporation if all stockholders are direct beneficiaries. Spouses receive an exemption for all real property, all jointly held property passing by right of survivorship, and the first $100,000 of other property. Collateral beneficiaries include all other beneficiaries. Collateral beneficiaries other than siblings of the decedent are taxed at the rate of 10%. Under Chapter 635 of 1999, siblings are taxed at the rate of 8% for decedents dying during fiscal 2000, 6% for decedents dying during fiscal 2001, and 5% for decedents dying on or after July 1, 2001.

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.
Maryland's other death tax, the "pick-up" estate tax, applies only if a federal estate tax return is required for the estate of a decedent. 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.

Background: The trend among states over the past 20 years has been to repeal inheritance and other death taxes in favor of pick-up estate taxes only. All 50 states and the District of Columbia now impose a pick-up estate tax. As of 1979, 33 states imposed inheritance taxes and a few others imposed estate taxes that were higher than the allowed federal death tax credit. By 1988, only 18 states imposed inheritance taxes and five imposed estate taxes in addition to the pick-up tax. As of 1999, only 13 states continue to impose an inheritance tax and three states impose an estate tax in addition to the pick-up estate tax. Of the 13 states currently imposing inheritance taxes, several exempt all transfers to spouses. In addition, five states entirely exempt transfers to lineal descendants from the tax and two others allow substantial exemptions for transfers to lineal descendants.

Of the states surrounding Maryland, only New Jersey and Pennsylvania continue to impose an inheritance tax. In New Jersey, transfers to spouses and lineal descendants are entirely exempt from the inheritance tax.

State Revenues: This bill reduces the direct inheritance tax rate to 0.5% and accelerates the reduction of the collateral inheritance tax rate for siblings, bringing their rate to 5%.

Direct Inheritance Tax Revenue Losses

Total direct tax revenues for fiscal 2001 are estimated at $25.7 million. Reducing the inheritance tax rate for direct descendants will result in a general fund revenue loss of approximately $4.8 million in fiscal 2001, representing the portion of those decedents (approximately 42%) dying on or after July 1, 2000, who will have their returns filed by the end of fiscal 2001. By fiscal 2002, approximately 97% of those decedents whose date of death was on or after July 1, 2001 will have had returns filed in that fiscal year. Thus, the decrease in direct inheritance revenues of $11.2 million in fiscal 2002 represents essentially a full year of the bill's fiscal impact on the direct inheritance tax.

Collateral Inheritance Tax Revenue Losses

Total collateral tax revenues for fiscal 2001 are estimated at $59.1 million. Reducing the collateral tax rate for siblings will result in a general fund revenue loss of approximately $1.0 million in fiscal 2001, representing the portion of those decedents (approximately 42%) dying on or after July 1, 2000, who will have their returns filed by the end of fiscal 2001. By fiscal 2002, approximately 97% of those decedents whose date of death was on or after July 1, 2001, will have had returns filed in that fiscal year. Thus, the decrease in direct inheritance revenues of $1.3 million in fiscal 2002 represents essentially a full year of the bill's fiscal impact on the direct inheritance tax. In fiscal 2002 and beyond, the collateral rate for siblings under the bill will coincide with current law, resulting in no fiscal impact beyond fiscal 2002.

Legislative Services' estimate of the collateral inheritance tax revenue losses is based on the assumption that approximately 35% of collateral tax revenue collections are associated with siblings (based on a sample survey by the Registers of Wills in 1999). Reducing the rate for siblings results in a reduction in collateral inheritance tax collections of 4% in fiscal 2001.

Estate Tax Revenue Gains

The inheritance tax loss will 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 payable, however, is reduced by the amount of inheritance tax paid. Conversely, due to the reduction in the inheritance tax rates, estate tax revenues may increase by approximately $2.2 million in fiscal 2001 paid by estates subject to the estate tax, because of the lost deduction for inheritance taxes. Estate taxes will increase by $4.5 million in fiscal 2002.

Net Revenue Impact

Combining the direct and collateral inheritance tax losses with the estate tax gain results in a net general fund revenue loss of $3.6 million in fiscal 2001. This loss increases to $8.0 million in fiscal 2002. The out-year projections are illustrated below.

General Fund Revenue Impact of Eliminating the Inheritance Tax (Revenues Only)
($ in millions)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Reduced Inheritance Tax Collections	($5.9)	($12.5)	($11.8)	($12.8)	($13.7)
Increased Estate Tax Collections	2.2	4.5	4.8	5.0	5.1
Net Impact	($3.6)	($8.0)	($7.1)	($7.9)	($8.6)

Numbers may not total due to rounding.

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 registers currently retain approximately $7.9 million per year of inheritance tax revenue to fund their operations; it is assumed that remaining inheritance tax collections will be sufficient to fund their collective operations.

Small Business Impact: Any reduction in the inheritance tax rate will have an impact on small businesses that are passed on to a beneficiary upon the death of the owner(s) of the business.

Additional Comments: Under current law, the rate reduction applies only to "brothers" and "sisters." If this bill extends the reduction to other siblings, such as stepbrothers and stepsisters, the fiscal impact could be somewhat higher. The amount of this difference cannot be determined at this time.

Additional Information

Prior Introductions: HB 291 of 1999, a similar but not identical bill, received an unfavorable report from the House Ways and Means Committee.

Cross File: None.

Information Source(s): Comptroller's Office, Registers of Wills, Department of Legislative Services

Fiscal Note History: First Reader - January 21, 2000
mncsjr

Analysis by: Matthew D. Riven

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510