

Department of Legislative Services  
Maryland General Assembly  
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 545  
Budget and Taxation

(Senator Giannetti)

Ways and Means

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**Inheritance Tax - Exemption for Property Passing to Family Partnership or  
Limited Liability Company**

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This bill expands the exemption from the Maryland inheritance tax for property passing to partnerships or limited liability companies (LLCs) if all partners or members are direct beneficiaries of the decedent.

The bill takes effect July 1, 2006 and is applicable to all decedents dying after June 30, 2006.

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**Fiscal Summary**

**State Effect:** None. The bill clarifies current law.

**Local Effect:** None.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** The Maryland inheritance tax is applied to the receipt of property from a decedent's estate. Under Chapter 497 of 2000, for decedents dying on or after July 1, 2000, direct beneficiaries and siblings are exempt from inheritance tax. Direct beneficiaries include parents, grandparents, spouses, children, other lineal descendants, stepparents, and stepchildren, or a corporation if all stockholders are direct beneficiaries. Collateral beneficiaries include all other beneficiaries and are taxed at the rate of 10%.

Chapter 145 of 2004 altered the definition of "child" and "parent" to include a former stepchild and former stepparent, respectively, so that the inheritance tax would not apply

to the receipt of property by a former stepchild or former stepparent. Chapter 145 extended the exemption for lineal beneficiaries to children and other lineal descendants of a stepchild or former stepchild of the decedent and to the spouses of those individuals.

**Background:** Exhibit 1 shows inheritance tax collections since fiscal 2001 and reflects the changes made to the inheritance tax since the enactment of Chapter 497 of 2000.

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**Exhibit 1**  
**Inheritance Tax Collections Fiscal 2001 - 2007**

<u>Fiscal Year</u>	<u>Collections</u>
2001	\$65,438,000
2002	50,583,000
2003	46,620,000
2004	42,046,000
2005	45,174,000
2006 (estimated)	46,608,000
2007 (estimated)	48,251,000

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**State Fiscal Effect:** The Register of Wills indicates that partnerships and LLCs consisting of family members are currently exempt from the inheritance tax because direct beneficiaries are exempt from the tax under current law. As a result, the bill serves to clarify current law.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 13, 2006  
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