

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 1089

(Senator Simonaire)

Budget and Taxation

Inheritance Tax - Exemption - Cousins

This bill exempts from the inheritance tax property that passes to or for the use by a cousin of the decedent, if the decedent has no surviving relatives who qualify as a direct beneficiary or sibling of the decedent.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: General fund revenues decrease by up to \$4.6 million in FY 2017 due to a reduction in inheritance tax revenues. Future year estimates reflect projected increases in inheritance tax revenues. Expenditures are not expected to be impacted.

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
GF Revenue	(\$4.6)	(\$4.7)	(\$4.7)	(\$4.8)	(\$4.8)
Expenditure	0	0	0	0	0
Net Effect	(\$4.6)	(\$4.7)	(\$4.7)	(\$4.8)	(\$4.8)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The State imposes a tax on property that passes at or after the death of an individual through an estate tax and an inheritance tax.

The Maryland inheritance tax is applied to the receipt of property from a decedent's estate. Chapter 497 of 2000 exempted from the inheritance tax property that is passed to or for the use of direct beneficiaries and siblings. These include a grandparent, parent, spouse, child or other lineal descendant, spouse of a child or other lineal descendant, stepparent, stepchild, brother or sister of the decedent, or a corporation if all of its stockholders consist of the surviving spouse, parents, stepparents, stepchildren, brothers, sisters, and lineal descendants of the decedent and spouses of the lineal descendants. Child and parent include a former stepchild and former stepparent.

Collateral beneficiaries include all other beneficiaries and are taxed at the rate of 10% unless the property, decedent, or beneficiary qualifies for an exemption. Estates may generally claim a credit against the estate tax for the amount of inheritance taxes paid.

State Fiscal Effect: The bill exempts from inheritance tax property that is passed to a cousin of the decedent, if the decedent has no surviving relatives who qualify as a direct beneficiary or sibling of the decedent. As a result, general fund revenues may decrease by up to \$4.6 million in fiscal 2017. This estimate is based on the following facts and assumptions:

- about 7% of the total fiscal 2015 inheritance taxes collected by the Howard County Register of Wills was imposed on property that passed to a cousin of the decedent;
- a total of \$65.6 million in inheritance taxes was collected statewide in fiscal 2015; and
- future revenue losses increase based on the current Board of Revenue Estimates' inheritance tax forecast.

This analysis assumes that all property that is passed to a cousin of a decedent will qualify for the proposed exemption. To the extent that a portion of this property does not meet the qualifications of the bill, revenue losses will be less than estimated. However, the Howard County Register of Wills advises that it could not locate a surviving direct beneficiary or sibling of a decedent in the vast majority of the instances when property was passed to a cousin.

A portion of the inheritance tax revenue collected in each year is retained by the Registers of Wills to pay for administrative costs, with the remaining amount distributed to the general fund. Accordingly, part of the estimated revenue loss may result in general fund expenditure increases in lieu of general fund revenue losses to the extent that remaining revenues are insufficient to cover administrative expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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md/jrb

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