LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6170 **DATE PREPARED:** Nov 12, 1999
BILL NUMBER: HB 1080 **BILL AMENDED:**

SUBJECT: Inheritance Tax deduction and valuation.

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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: Part A: This bill allows a deduction from the value of property interests transferred by a resident decedent equal to the amount of the decedent's interest in a qualified family owned business deducted from the decedent's gross estate for federal estate tax purposes under Section 2057 of the Internal Revenue Code.

Part B: The bill also provides that the finally determined federal estate tax value of a property interest is presumed to be the fair market value of the property interest for Indiana inheritance tax purposes. (The introduced version of this bill was prepared by the Probate Code Study Commission.)

Effective Date: July 1, 2000.

Explanation of State Expenditures: Any impact related to the administration of this additional deduction would be minimal and can be absorbed within the budget of the Department of Revenue.

Explanation of State Revenues: Part A: This additional deduction would result in a decrease in the amount of revenue received by the State General Fund. Based on the number of qualified family owned businesses that have taxable estates at the federal level, the number of estates that annually will be able to take advantage of this proposal is estimated to be between 64 and 72. If each of these estates is able to use the maximum deduction of $675,000 allowed by the Internal Revenue Code, the revenue loss would be **approximately $1 million during the first year of implementation, FY 2001.** This estimate is a net figure and takes into account the fact that there will be a slight increase in Indiana Estate Tax collections and a small amount paid from the State General Fund to counties to make up for any loss of revenue to the counties as a result of this new deduction.

It should also be noted that the $1 million annual estimate will tend to be reduced over time because federal law requires the amount of the deduction to be combined with the federal unified credit and the total of the two is limited to $1.3 million. Since the amount of the unified credit is scheduled to increase incrementally over the next eight years to a maximum of $1 million, the amount of the deduction for qualified family-owned businesses will be reduced to $300,000 over this period of time. For this reason, **the amount of impact should gradually decrease over the next few years and ultimately be about $500,000 per year**.

Part B: By allowing the finally determined federal estate tax value to be the fair market value of the property interest for Indiana Inheritance Tax purposes, it is possible that some property interests could be valued at a lower amount than under current law. The amount is indeterminable and is believed to be minimal.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties receive 8% of resident inheritance tax collections. State law requires the state to pay counties any amount needed to insure that each county receives a statutorily calculated amount. Should this proposal result in some counties not receiving the minimum amount to which they are entitled through inheritance tax collections, the State General Fund will pay the difference. It is estimated that the total amount required state wide will be about $90,000 in the first year and will gradually be reduced to about $40,000 per year after eight years.

State Agencies Affected: Department of Revenue.

Local Agencies Affected: Counties.

Information Sources: Joint Tax Committee, Washington, D.C., Mike Udell, 202-226-7575; Department of State Revenue, Bill Reynolds, 232-2156.