LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6550
BILL NUMBER: HB 1276

NOTE PREPARED: Dec 26, 2005
BILL AMENDED:

SUBJECT: Inheritance Tax Phaseout.

FIRST AUTHOR: Rep. Bright
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill phases out the Inheritance Tax beginning July 1, 2008, by giving an increasing credit against the Inheritance Tax due. It provides that the Inheritance Tax does not apply to the transfer of property interests from a person who dies after June 30, 2011. It also makes technical corrections.

Effective Date: July 1, 2006.

Summary of Net State Impact: Under the bill the state will experience a progressively larger reduction in Inheritance Tax revenue from FY 2010 to FY 2013 when the state will no longer receive revenue from the tax. The bill is also expected to increase state General Fund expenditures on county Inheritance Tax replacement. The impact of the bill on state revenues and expenditures is summarized in the table below.

Fiscal Year	Inheritance Tax Revenues	Add'l. State Expenditures for County Replacement	Net Increase (Decrease)
2010	($35 M)	$14,000	($35.0 M)
2011	(70 M)	(1.3 M)	(71.3 M)
2012	(105 M)	(4.3 M)	(109.3 M)
2013 and after	(140 M)	(7.3 M)	(147.3 M)

Explanation of State Expenditures: *Department of State Revenue:* If the Inheritance Tax is repealed, there could be a savings to the state from a reduction in staff of the Inheritance Tax Section of the Department of State Revenue. The December 5, 2005, state staffing table indicates that the Inheritance Tax Division has 12 full-time employees with an annual salary of $362,908. Since staff will be needed to process returns during the phaseout of the Inheritance Tax, a specific savings due to staff reductions could not be estimated.

County Inheritance Tax Replacement: The bill could increase expenditures from the state General Fund for county Inheritance Tax replacement beginning in FY 2010 as specified in the table below. These calculations represent upper bounds, and necessary replacement amounts may vary depending on whether and by how much each county's base Inheritance Tax revenue differs from the amount guaranteed under current statute. While the guarantee totals about $7.4 M, the guarantee total for FY 2005 collections is about $159,000. Thus, the additional impact of the bill is estimated to total about $7.3 M annually beginning in FY 2013 once revenue from the Inheritance Tax comes to an end.

Fiscal Year	Add'l. State Expenditures for County Replacement
2010	($14,000)
2011	(1.3 M)
2012	(4.3 M)
2013 and after	(7.3 M)

Explanation of State Revenues: *Summary:* The bill would lead to progressively larger reductions in Inheritance Tax revenues from FY 2010 through FY 2013 when the tax would be eliminated and no longer generate revenue. The revenue loss from the phaseout is shown in the table below.

Fiscal Year	Inheritance Tax Revenues
2010	($35 M)
2011	(70 M)
2012	(105 M)
2013 and after	(140 M)

Background: The bill phases out the Inheritance Tax over a four-year period specified in the table below by providing an increasing credit against a beneficiary's Inheritance Tax liability. The credit would apply to transfers made by persons who die within the dates specified in the following table. Since the Inheritance Tax must be paid within 12 months after the decedent's death (within 9 months to receive the 5% early payment discount), the bulk of the impact of the first year's credit (equal to 25%) would not be experienced until FY 2010.

Inheritance Tax Credit	Transfers made from persons dying...
25%	After June 30, 2008, and before July 1, 2009
50%	After June 30, 2009, and before July 1, 2010
75%	After June 30, 2010, and before July 1, 2011
100%	After June 30, 2011

The estimated impact of the phaseout of the Inheritance Tax is based on the Revenue Technical Committee's FY 2007 forecast (updated December 14, 2005). This forecast estimates FY 2007 Inheritance Tax at $140 M. The estimated revenue loss from the exemption assumes that Inheritance Tax revenues would remain relatively constant in the future, absent the phaseout.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary:* The phaseout of the Inheritance Tax could result in an annual revenue loss to counties beginning in FY 2010.

Fiscal Year	Local Share of Inheritance Tax Revenues	Add'l. State Expenditures for County Replacement	Net Increase (Decrease)
2010	($3.0 M)	$14,000	($3.0 M)
2011	(6.1 M)	1.3 M	(4.7 M)
2012	(9.1 M)	4.3 M	(4.8 M)
2013 and after	(12.1 M)	7.3 M	(4.8 M)
Note: Rows may not sum due to rounding.			

Background: Counties retain 8% of the Inheritance Tax collected on transfers made by Indiana residents. Counties are guaranteed a statutorily determined amount under the replacement provision established by P.L. 254-1997. The replacement provision was established to replace county Inheritance Tax revenue lost when the Class A exemption was increased on July 1, 1997. The replacement provision guarantees that each county receives Inheritance Tax revenue equal to the five-year annual average amount of Inheritance Tax received by that county from FY 1991 to FY 1997 excluding the highest and lowest years. While the total annual guarantee to counties is $7.4 M, the guarantee total for FY 2005 collections is about $159,000. Currently, most counties retain more in Inheritance Tax revenues than is guaranteed under the replacement procedure.

A copy of the spreadsheet showing the amount of Inheritance Tax replacement guaranteed to each county under P.L. 254-1997 is available from the Office of Fiscal and Management Analysis.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties.

Information Sources: State Revenue Forecast (December 14, 2005); Department of State Revenue, Inheritance Tax Annual and Quarterly Reports; OFMA Inheritance Tax database.

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