

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6992

BILL NUMBER: HB 1542

SUBJECT: Inheritance Tax.

FIRST AUTHOR: Rep. Turner

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

NOTE PREPARED: Jan 7, 2013

BILL AMENDED:

BILL STATUS: As Introduced

IMPACT: State & Local

Summary of Legislation: This bill provides that the Inheritance Tax does not apply to property interests transferred by decedents whose deaths occur after December 31, 2017. It specifies that certain definitions apply after the elimination of the Inheritance Tax for purposes of the Indiana Estate Tax and the Indiana Generation-Skipping Transfer Tax. It provides that the Inheritance Tax replacement amount is calculated in the same manner that it was calculated between 1997 and 2012. (Current law provides that a county is not eligible for a replacement amount unless it receives a replacement amount for Inheritance Tax collections in state fiscal year 2011-2012.) The bill also phases out Inheritance Tax replacement amount distributions from 2013 to 2017.

Effective Date: July 1, 2013.

Summary of Net State Impact: The annual net fiscal impact to the state General Fund from Inheritance Tax changes proposed in the bill is summarized in the table below. Under the bill, Indiana Inheritance Tax revenues will decrease beginning in FY 2015.

Fiscal Year Impact	Estimated State Revenue Loss	Estimated Net Increase (Decrease) in Replacement Payments	Net Increase (Decrease)
FY 2014	-	\$20,000	(\$20,000)
FY 2015	(\$6.6 M - \$6.9 M)	\$133,000	(\$6.8 M - \$7.0 M)
FY 2016	(\$19.9 M - \$20.7 M)	\$264,000	(\$20.2 M - \$21.0 M)
FY 2017	(\$33.2 M - \$34.5 M)	\$418,000	(\$33.6 M - \$34.9 M)
FY 2018	(\$46.5 M - \$48.3 M)	\$288,000	(\$46.8 M - \$48.6 M)
FY 2019	(\$53.1 M - \$55.2 M)	(\$18,000)	(\$53.1 M - \$55.2 M)
FY 2020	(\$46.5 M - \$48.3 M)	(\$15,000)	(\$46.4 M - \$48.3 M)
FY 2021	(\$33.2 M - \$34.5 M)	(\$11,000)	(\$33.2 M - \$34.5 M)
FY 2022	(\$19.9 M - \$20.7 M)	(\$7,000)	(\$19.9 M - \$20.7 M)
FY 2023	(\$6.6 M - \$6.9 M)	(\$4,000)	(\$6.6 M - \$6.9 M)
FY 2024	\$0	\$0	\$0

Explanation of State Expenditures: *Department of State Revenue:* 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 3, 2012, state staffing table indicates that the Inheritance Tax Division has 7 full-time employees with an annual salary of about \$268,000. Current law provides for a phaseout of the Inheritance Tax by CY 2022, which could also result in savings from a reduction in staff over time.

County Inheritance Tax Replacement Payments: This bill changes the calculation of Inheritance Tax replacement payments to counties which would result in an increase in expenditures from the state General Fund from FY 2014 until FY 2019 when replacement payments are eliminated by this bill. See *Explanation of Local Revenues* for more information.

Explanation of State Revenues: *Summary* - This bill would accelerate the phase out of the Inheritance Tax by eliminating it for deaths occurring in CY 2018. Current law provides that the Inheritance Tax is eliminated for deaths occurring in CY 2022. The following table provides the estimated state revenue loss attributable to this bill.

Fiscal Year Impact	Estimated State Revenue Loss
FY 2015	(\$6.6 M - \$6.9 M)
FY 2016	(\$19.9 M - \$20.7 M)
FY 2017	(\$33.2 M - \$34.5 M)
FY 2018	(\$46.5 M - \$48.3 M)

FY 2019	(\$53.1 M - \$55.2 M)
FY 2020	(\$46.5 M - \$48.3 M)
FY 2021	(\$33.2 M - \$34.5 M)
FY 2022	(\$19.9 M - \$20.7 M)
FY 2023	(\$6.6 M - \$6.9 M)
FY 2024	\$0

Background Information - SEA 293-12 provided for a phase out of the Inheritance Tax beginning with decedents whose deaths occur during CY 2013. The Inheritance Tax will no longer apply to property interests transferred by decedents whose deaths occur after December 31, 2021. The Inheritance Tax must be paid within 12 months after the decedent's death (within 9 months to receive the 5% early discount).

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary* - The acceleration of the phase out of the Inheritance Tax provided by this bill could result in an annual revenue loss to counties beginning in FY 2015.

Fiscal Year Impact	Local Share of Inheritance Tax Revenue Loss	Estimated Net Increase (Decrease) of Replacement Payments	Net Increase (Decrease)
FY 2014	-	\$20,000	\$20,000
FY 2015	(\$0.5 M - \$0.6 M)	\$133,000	(\$0.4 M - \$0.5 M)
FY 2016	(\$1.7 M - \$1.8 M)	\$264,000	(\$1.4 M - \$1.5 M)
FY 2017	(\$2.9 M - \$3.0 M)	\$418,000	(\$2.4 M - \$2.6 M)
FY 2018	(\$4.0 M - \$4.2 M)	\$288,000	(\$3.7 M - \$3.9 M)
FY 2019	(\$4.6 M - \$4.8 M)	(\$18,000)	(\$4.6 M - \$4.8 M)
FY 2020	(\$4.0 M - \$4.2 M)	(\$15,000)	(\$4.0 M - \$4.2 M)
FY 2021	(\$2.9 M - \$3.0 M)	(\$11,000)	(\$2.9 M - \$3.0 M)
FY 2022	(\$1.7 M - 1.8 M)	(\$7,000)	(\$1.7 M - 1.8 M)
FY 2023	(\$0.5 M - \$0.6 M)	(\$4,000)	(\$0.5 M - \$0.6 M)
FY 2024	\$0	\$0	\$0

County Inheritance Tax Replacement Payments: This bill would increase the amount of replacement payments made to counties from the state General Fund beginning in FY 2014 due to the acceleration of the phase out of the Inheritance Tax and the change in the calculation of replacement payments. However, this bill provides that replacement payments will end by FY 2019 while current law phases out the replacement payments by FY 2024. Estimates are provided in the following table.

Fiscal Year Impact	Estimated Replacement Payments Under Current Law	Estimated Replacement Payments Provided by this Bill	Net Increase (Decrease)
FY 2014	\$37,000	\$57,000	\$20,000
FY 2015	\$33,000	\$166,000	\$133,000
FY 2016	\$30,000	\$294,000	\$264,000
FY 2017	\$26,000	\$444,000	\$418,000
FY 2018	\$22,000	\$310,000	\$288,000
FY 2019	\$18,000	\$0	(\$18,000)
FY 2020	\$15,000	\$0	(\$15,000)
FY 2021	\$11,000	\$0	(\$11,000)
FY 2022	\$7,000	\$0	(\$7,000)
FY 2023	\$4,000	\$0	(\$4,000)
FY 2024	\$0	\$0	\$0

Background Information - This bill changes the calculation of Inheritance Tax replacement payments made to counties beginning in FY 2014 to the calculation method that was in statute prior to SEA 293-2012, multiplied by percentages that phase out the payments by FY 2023. The calculation will be based upon the difference between the Inheritance Taxes retained by a county in a state fiscal year and the average amount collected between 1990 and 1997, excluding the highest year and lowest year, multiplied by the appropriate percentage. The table below provides the schedule for the phase out of county replacement payments.

Fiscal Year of Distribution	County Replacement Payment Phase Out Under this Bill	County Replacement Payment Phase Out Under Current Law
FY 2014	90%	91%
FY 2015	70%	82%
FY 2016	50%	73%
FY 2017	30%	64%
FY 2018	10%	55%
FY 2019	End of Replacement Payments	45%
FY 2020		36%
FY 2021		27%
FY 2022		18%
FY 2023		9%
FY 2024		End of Replacement Payments

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties.

Information Sources: OFMA Inheritance Tax Database; Revenue Technical Committee, *State Revenue Forecast, Fiscal Year 2015*, December 17, 2012; Quarterly Inheritance Tax Reports, FY 1997- FY 2012.

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