MINNESOTA · REVENUE

ESTATE TAX
Partial Federal Conformity

February 17, 2011

	Yes	No
DOR Administrative Costs/Savings		x

Department of Revenue
Analysis of H.F. 275 (Davids) As Proposed to be Amended

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
	(000's)			
General Fund	($70,500)	($99,000)	($26,000)	$0

Effective for estates of decedents dying after December 31, 2010, and before January 1, 2013

EXPLANATION OF THE BILL

Current Law: The amount of excludable taxable estate is $1 million. Also, the $1 million exclusion amount is not portable between spouses. That is, if on the death of the first spouse, the entire exclusion amount is not used, then the unused portion of the exclusion amount is not transferred to the surviving spouse. So the unused portion cannot be used to increase the exclusion amount available to the estate of the surviving spouse.

Proposed Law: In order to bring the Minnesota estate tax into partial conformity with the federal estate tax, the proposal includes two provisions. The amount of excludable taxable estate would be increased to $5 million. In addition, the exclusion amount would become portable between spouses. That is, any unused portion of the exclusion amount from the estate of the first spouse to die would be available to be used to increase the exclusion amount available to the estate of the surviving spouse. As proposed to be amended, the rate structure for the federal estate tax, which has a minimal impact on the Minnesota estate tax, would remain as it has been for purposes of the Minnesota tax. Also, the provisions of the proposal would expire December 31, 2012, which is when the current federal law is set to expire. For decedents dying after December 31, 2012, current Minnesota law would go back into effect.

Note: The filing requirement in M.S. 289A.10 should be changed to be consistent with the $5 million exclusion amount.

REVENUE ANALYSIS DETAIL

- The estimate is based on the November 2010 forecast.
- From estate tax databases created by the Department of Revenue for estate tax returns filed in 2007 and 2008, it is estimated that about 57% of estate tax revenue was generated from estates where the taxable estate was less than $5 million.
- Therefore, it is assumed that there will be a 57% reduction in future estate tax revenue.

REVENUE ANALYSIS DETAIL (Continued)

- It is also assumed that the returns are filed and the tax is paid nine months after the death of the decedent.
- Since the proposal would be in effect for only two years, the impact of the portability of the exclusion between spouses should be small. For purposes of this analysis, an additional impact of one percentage point was assumed.

Number of Taxpayers: Based on information in the estate tax databases, 800 to 1,000 returns could be impacted for each of the two years the proposal would be in effect.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

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