

MINNESOTA • REVENUE

ESTATE TAX \$5 Million Exclusion

January 22, 2013

Preliminary Estimates

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of S.F. 40 (Gazelka), As Proposed to be Amended (SCS0040A-3)

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
General Fund	(\$60,500)	(\$79,600)	(\$78,300)	(\$76,500)

(000's)

Effective for estates of decedents dying after December 31, 2012.

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. In addition, for estates where the small business or farm deduction applies, a deduction of up to \$4 million could be available.

Proposed Law: As proposed to be amended, the exclusion amount would increase to \$5 million from \$1 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 increase the exclusion amount available to the estate of the surviving spouse. The small business and farm deductions would be eliminated, and the filing requirement would be changed so that a Minnesota estate tax return would have to be filed if a federal estate tax return were required to be filed.

REVENUE ANALYSIS DETAIL

- The estimate is based on the November 2012 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.
- While the long-term impact of portability probably will be significant, the impact for the duration of this analysis should be small. For purposes of this analysis, an additional impact of one percentage point was assumed.

REVENUE ANALYSIS DETAIL (Cont.)

- Since the forecast already was reduced for the small business and farm deduction, the impact of the proposal was reduced accordingly.
- It is also assumed that the returns are filed and the tax is paid nine months after the death of the decedent.

Number of Taxpayers: Based on information in the estate tax databases, 800 to 1,000 returns could be impacted.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx