MINNESOTA · REVENUE

ESTATE TAX & GIFT TAX
Estate Tax – Federal Conformity
Repeal of Gift Tax

March 12, 2014

Preliminary Analysis

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 2297 (Loon)

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
	(000's)			
Estate Tax	($29,000)	($122,600)	($133,100)	($142,100)
Gift Tax	($5,600)	($12,100)	($14,500)	($18,200)
General Fund Total	($34,600)	($134,700)	($147,600)	($160,300)

The estate tax is effective for estates of decedents dying after June 30, 2013.
The gift tax is effective retroactively for gifts made after June 30, 2013.

EXPLANATION OF THE BILL

Current Law: *Estate Tax* - The Minnesota estate tax is determined by calculating two different tax amounts based on two different tax rate tables found in pre-2001 federal estate tax statutes. The resulting Minnesota estate tax is the minimum of those two different tax amounts. The calculation includes an exclusion of the first $1 million of taxable estate. In addition, there is a deduction for the amount of qualified small business and farm property, limited to $4 million. Also, in 2013 a law was enacted that requires that the amount of taxable gifts made by a decedent within three years of the decedent's death be included in the taxable estate of the decedent. Because the Minnesota exclusion is less than the federal exclusion, some estates are required to file a Minnesota estate tax return when no federal estate tax return is required.

Gift Tax - In 2013 a gift tax was enacted, effective for gifts made after June 30, 2013. The gift tax is equal to 10% of Minnesota taxable gifts. There is a lifetime credit of $100,000 that can be used to offset any gift tax that would otherwise be owed to Minnesota. For property sited in Minnesota, Minnesota recognizes the definition of federal taxable gifts. For 2014, the first $14,000 of total gifts given to one individual by a donor in one year would not be considered taxable. Anything over $14,000 would be considered taxable.

Proposed Law:
Estate Tax - The Minnesota filing requirement would conform to the federal filing requirement effectively raising the exclusion to $5.34 million for 2014 decedents. The amount is indexed annually for inflation. The deduction for the amount of qualified small business and farm property would no longer be allowed. The amount of taxable gifts made by a decedent within three years of the decedent's death would no longer be included in the taxable estate of the decedent. The proposal also allows for any unused exclusion of a deceased spouse to be transferred to the estate of the surviving spouse.

Gift Tax - The gift tax would be repealed retroactively to June 30, 2013.

REVENUE ANALYSIS DETAIL

Estate Tax

- A database of estate tax returns filed in 2012 and 2013 was created and used for this analysis.
- Returns received for the twelve months from July 2012 through June 2013 were used.
- Because the estate tax statutes were changed during the 2013 legislative session, the estate taxes for returns in the database were recalculated to reflect those 2013 changes.
- The provisions of the proposal were then used to recalculate the estate taxes for the returns in the database.
- The deduction for the amount of qualified small business and farm property was not allowed.
- Adjusted taxable gifts were not included in the taxable estate.
- It was assumed that the transfer of the unused exclusion of a deceased spouse to the estate of the surviving spouse would have no effect during the period of this analysis.
- Using the provisions of the proposal, the total estate tax for returns in the database decreased by 61.8%. That percentage change was applied to the estate tax estimates in the February 2014 estate tax forecast.
- It is assumed that the estate tax is paid nine months after the death of the deceased.

Gift Tax

- The impact of the repeal of the gift tax was taken from the gift tax estimate in the February 2014 forecast.

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

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