

MINNESOTA • REVENUE

ESTATE TAX & GIFT TAX Exclude Gifts from Estate Tax Repeal of Gift Tax

March 11, 2014

Department of Revenue
Analysis of H.F. 2596 (Torkelson) / S.F. 2119 (Dahms)

	Yes	No
DOR Administrative Costs/Savings	X	

	<u>Fund Impact</u>			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
			(000's)	
Estate Tax	(\$500)	(\$5,600)	(\$11,000)	(\$15,000)
Gift Tax	<u>(\$5,600)</u>	<u>(\$12,100)</u>	<u>(\$14,500)</u>	<u>(\$18,200)</u>
General Fund Total	(\$6,100)	(\$17,700)	(\$25,500)	(\$33,200)

Effective retroactively for gifts made after June 30, 2013.

EXPLANATION OF THE BILL

Current Law: 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.

Also in 2013, for estate tax purposes, 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.

Proposed Law: The gift tax would be repealed retroactively to June 30, 2013. In addition, 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.

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.
- As an estimate of taxable gifts made within three years of death, fifty percent of adjusted taxable gifts were included in the taxable estate.
- By excluding taxable gifts made within three years of death from the taxable estate, the total tax for returns in the database decreased by 6.8%.

REVENUE ANALYSIS DETAIL (Cont.)

- Since only gifts made after June 30, 2013, need to be included in the taxable estate of the decedent, the percentage reduction was reduced for each year to reflect the fact that less than three years of taxable gifts would be included. Those adjusted percentages were 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](http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx)