

April 2, 2019

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue  
Analysis of H.F. 2557 (Gomez)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2020</u></b>	<b><u>F.Y. 2021</u></b>	<b><u>F.Y. 2022</u></b>	<b><u>F.Y. 2023</u></b>
	(000's)			
General Fund	\$0	\$1,700	\$2,300	\$2,400

Effective for estates of decedents who die after December 31, 2019.

**EXPLANATION OF THE BILL**

**Current Law:** During the 2017 legislative session, changes were made to the 2014 Minnesota stand-alone estate tax. Those changes included increasing the exclusion from \$2 million to \$3 million and changing the definition of taxable estate. The exclusion amounts increased as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020 and later</u>
2014 Law	\$1.8 million	\$2.0 million	\$2.0 million	\$2.0 million
2017 Law	\$2.1 million	\$2.4 million	\$2.7 million	\$3.0 million

The definition of taxable estate was changed by subtracting the exclusion from the amount of the estate. As a result, the maximum tax rate of 16% does not go into effect at an estate amount of \$10.1 million as it did under previous law. It goes into effect for estates valued at more than \$10.1 million plus the exclusion (\$12.8 million in 2019).

In addition, the maximum small business and farm subtraction was reduced by the 2017 tax law changes. Simply stated, the maximum small business and farm subtraction plus the amount of the exclusion is equal to \$5.0 million under both the 2014 law and the 2017 law. So as the exclusion increases, the maximum small business and farm subtraction decreases, with the sum of the two remaining at a constant \$5.0 million. If an estate makes use of the small business and farm subtraction and if a qualified heir of the estate disposes of small business or farm property within three years of the death of the decedent, a recapture tax is imposed. The amount of the recapture tax is 16% of the amount of the small business and farm subtraction claimed when the estate tax return was filed.

Also, for the estates of decedents who die in 2018 and later the estate tax rates vary from 13% to 16%. The 16% bracket starts at a taxable estate amount of \$10.1 million.

**Proposed Law:** The proposal would create a new bracket above the current top bracket of 16%. The new 16.8% bracket starts at a taxable estate amount of \$11.1 million.

## REVENUE ANALYSIS DETAIL

- A database of estate tax returns filed in 2012 through 2017 was used for this analysis.
- The returns in the database were filed under statutory provisions that were different from current law. Therefore, the estate tax amounts for returns in the database were recalculated to be consistent with current law.
- Current law and the new top bracket of 16.8% were used to recalculate the estate taxes for the returns in the database.
- Comparing those calculations, the total estate tax for returns in the database increased by 1.5% for CY 2020 and thereafter.  
That increase ratio was applied to the estate tax estimates in the February 2019 estate tax forecast.
- It is assumed that the estate tax is paid nine months after the death of the deceased.

**Number of Taxpayers:** Approximately 1,800 estate tax returns have been filed to date for decedents who died in 2015 with about 900 owing tax. Approximately 1,500 estate tax returns have been filed to date for decedents who died in 2016 with about 700 owing tax. Approximately 700 estate tax returns have been filed to date for decedents who died in 2017 with about 300 owing tax.

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)