

Legislative Analysis



REPEAL ESTATE TAX ACT

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House Bills 4486-4491

Sponsor: Rep. Rick Baxter

Committee: Tax Policy

Complete to 2-17-06

A SUMMARY OF HOUSE BILLS 4486-4491 AS INTRODUCED 3-15-05

House Bill 4486 would repeal the Estate Tax Act, Public Act 184 of 1899. The remaining bills, which are tie-barred to House Bill 4486, would delete references to the act in various state laws.

- House Bill 4487 would amend Public Act 72 of 1972 (MCL 21.278) to delete a requirement that the annual report on tax credits, deductions, and exemptions that accompanies the Executive Budget include an estimate on the revenue foregone from various exemptions under the Estate Tax Act.
- House Bill 4488 would delete a reference to the Estate Tax Act in the Revenue Act (MCL 205.13)
- House Bill 4489 would delete a reference to the Estate Tax Act in the Tax Tribunal Act (205.779)
- House Bill 4490 would delete a reference to the Estate Tax Act in Public Act 330 of 1939, concerning the contents of safe deposit boxes rented by two or more people (MCL 487.721)
- House Bill 4491 would delete a reference to the Estate Tax Act in the Estates and Protected Individuals Code (MCL 700.2517 and 700.3912).

FISCAL IMPACT:

The bills would have no fiscal impact in FY 2005-06 or in FY 2006-07. Under federal law, the federal estate tax will be eliminated in calendar year (CY) 2010, but will then be reinstated effective CY 2011 with the provisions contained in the CY 2001 law. Under current federal and state law, Michigan would receive an estimated \$250 million in estate tax revenue for CY 2011. However, if the federal government were to repeal the tax prior to CY 2011, Michigan would receive no estate tax revenue. The fiscal impact would affect General Fund/General Purpose (GF/GP) revenue.

BACKGROUND INFORMATION:

Until recently, the federal estate tax allowed a dollar-for-dollar credit for state death taxes actually paid, up to a certain amount. The federal Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16) phased out the state death tax credit over the course of four years, beginning in 2002, and replaced the credit with a deduction for state

death taxes paid. The credit, then, is only allowed for the estates of those who died prior to January 1, 2005.

Prior to 1993, Public Act 188 of 1899 imposed an inheritance tax on the individual beneficiaries. Under the inheritance tax, liability was based on the amount a beneficiary received and the beneficiary's relationship to the decedent. Public Act 54 of 1993 amended Public Act 188 of 1899, effectively repealing the inheritance tax and imposing an estate tax on the estates of individuals who died after September 30, 1993. The Michigan Estate Tax piggybacks on the federal estate tax, with tax liability equal to the maximum allowable federal credit under the Internal Revenue Code for estate, inheritance, succession ("death") taxes paid to the states. Additionally, under the 1993 amendments, the Michigan estate tax was only imposed on those estates that were also subject to the federal estate tax. For deaths occurring in 2004, the federal estate tax applied to estates with values of \$1.5 million or more. With the repeal of the federal state death tax credit, the Michigan estate tax is not imposed on estates of individuals who die after December 31, 2004.

The Michigan estate tax is known as a "pick-up" tax, because it allows the state to "pick-up" revenue (the amount of the credit) that would otherwise go to the federal government. This allowed the state to impose an estate tax without increasing an estate's overall (federal and state) tax liability. If the state did not impose the tax, the same amount would be paid in total.

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