

Legislative Analysis



REPEAL MICHIGAN ESTATE TAX ACT

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 4922 as referred to second committee

Sponsor: Rep. Steven Johnson

1st Committee: Tax Policy

2nd Committee: Ways and Means

Complete to 3-11-20

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 4922 would repeal the Michigan Estate Tax Act.

MCL 205.201 to 205.256 (repealed)

BACKGROUND:

In 1993, Michigan amended its inheritance tax law to change to an estate tax.¹ (An estate tax is levied against the value of a deceased person's estate, while an inheritance tax is levied against the heirs after transfer of the estate's assets.) The Michigan Estate Tax Act was a "pickup tax," meaning that the amount the state collected was based on the state estate tax credit the IRS allowed for the federal estate tax. That is, an estate could deduct from its federal estate taxes the amount (up to a maximum) it had paid in state estate taxes, and Michigan set its tax liability to equal that creditable amount. The state estate tax thus did not change the total amount of taxes paid by an estate; in the absence of the state tax, the estate would have paid the credited amount as federal taxes. The pickup tax was a way for the state to get its allowable share of taxes that were otherwise being paid to the IRS. In 2005, changes in federal tax law phased out the state estate tax credit for that federal tax, and as a result Michigan has not collected a state estate tax on new estates since then.

Estate or inheritance taxes are currently effective in seventeen states and the District of Columbia.

FISCAL IMPACT:

Because Michigan's estate tax is determined by the state credit allowed on the federal estate tax, and the state credit was eliminated in 2005, Michigan's estate tax no longer generates ongoing revenue. Any revenue realized at this point is due to estates prior to 2005 that have been under litigation.

¹ House Legislative Analysis Section analysis of 1993 PA 54 (HB 4597):
<https://www.legislature.mi.gov/documents/1993-1994/billanalysis/House/pdf/1993-HLA-4597-B.pdf>

POSITIONS:

Representatives of the following organizations testified in support of the bill (10-16-19):

Mackinac Center for Public Policy

National Federation of Independent Business

A representative of the Department of Treasury testified in opposition to the bill.
(10-16-19)

Legislative Analyst: Rick Yuille

Fiscal Analyst: Jim Stansell

■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations and does not constitute an official statement of legislative intent.