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BILL ANALYSIS

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House Bill 4237 (as passed by the House)
Sponsor: Representative Steven Johnson
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 6-9-21

CONTENT

The bill would repeal the Michigan Estate Tax Act.

The Act imposes a tax on the transfer of the estate of every person who at the time of death was a Michigan resident, or on every generation-skipping transfer in which the original transferor is a Michigan resident on the date of the transfer. The tax is equal to the maximum allowable Federal credit under the Internal Revenue Code for estate, inheritance, legacy, and succession taxes paid to the states, or for state generation-skipping transfer taxes, as applicable. This tax applies to the estate of a resident or nonresident decedent who died, or for a generation-skipping transfer that occurs, after September 30, 1993. (An estate of a resident or nonresident who died before October 1, 1993, or a generation-skipping transfer that occurred after December 31, 1992, but before October 1, 1993, was subject to the inheritance tax (which was paid by the individual or entity receiving the transfer). The bill also would repeal the inheritance tax provisions.)

MCL 205.201-205.256

BACKGROUND

The Michigan estate tax is a "pick-up tax", meaning that the amount the State collects is based on the state estate tax credit the Internal Revenue Service allows for the Federal estate tax. In other words, an estate generally can deduct from its Federal estate taxes the amount it pays in State estate taxes, and Michigan set its estate tax to equal that creditable amount. As written, an estate pays the same amount in taxes regardless; if the Federal government offers no tax credit, 100% of tax is paid to the Federal government. If the Federal government offers a state tax credit, then whatever proportion of the tax that is not collected by the Federal government is collected by the State. As noted below, in 2005, the Federal government phased out the state estate tax credit. Accordingly, Michigan has not collected revenue under the Estate Tax Act since then.

Legislative Analyst: Christian Schmidt

FISCAL IMPACT

The bill would have no effect on State and local revenue under current Federal law. The statute the bill would repeal assesses a State tax equal to the credit allowed under the Federal estate tax. As such, the tax did not change taxpayers' total liabilities, but did change how they were split between Federal and State liabilities. The Federal credit was eliminated in 2005 under phased-in Federal tax reform measures initially adopted in 2001. As a result, the current statute does not generate any revenue for the State.

Absent the bill, if the Federal government reestablished a state credit under the Federal estate tax, taxpayers would split their liability between the Federal government and the State. Under the bill, if the Federal government reestablished a state credit, taxpayers' total liabilities would be the same as absent the bill, but 100% of the payment would be directed to the Federal government.

Fiscal Analyst: David Zin

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