
Legislative Fiscal Division

Revenue Estimate Profile

Estate Tax

Revenue Description: Since 1980, revenues from inheritance taxes have fluctuated because of federal and state law changes, changes in wealth, changes in the death rate of the population, accounting procedures, and the processing of large estates. Due to passage of Legislative Referendum 116 by the electorate in November 2000, the state inheritance tax was repealed. The tax had been imposed on the transfer of any decedent's property, interest in property, or income from property within the state, to any other person or corporation except a surviving spouse, child or lineal descendant, stepchild, or governmental or charitable organization. Although the referendum was effective immediately, it applied to deaths occurring after December 31, 2000. Thus, inheritance tax revenue will continue to produce revenue, but the amount of revenue will decrease each year. In addition to the inheritance tax, the state receives a credit from the federal estate tax based on the value of Montana property transferred to estates at the time of death. The Montana estate tax is equal to the maximum estate tax credit allowed under federal estate tax law.

Congress passed the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) which scheduled a step down approach to the repeal of the federal estate tax. Provisions of the act included the elimination of the state estate tax credit, the source of Montana's estate tax revenue. The estate tax credit of those who died in 2002, 2003, and 2004 was reduced by 25% per each year until 2005 when the credit equaled zero. Many years may pass before the time that estates are finally settled and the taxes of the estates are paid, and estate tax revenues collected by the state are expected to become insignificant.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 reinstated federal estate taxes for 2011 and 2012, but did not reinstate the state estate tax credit. For these years, the federal estate tax exemption will be \$5 million and the estate tax rate for estates valued over this amount will be 35%; however, because the state credit was not continued, Montana will not receive any increase in revenues.

Statutory Reference:

Tax Rate (MCA) – 72-16-905

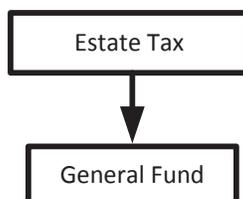
Tax Distribution (MCA) – 17-2-124(2), 72-16-1003

Date Due – 18 months after death (72-16-909)

Applicable Tax Rate(s): The estate tax is equal to the maximum estate tax credit allowed under federal estate tax law.

Distribution: All proceeds are deposited into the general fund.

Distribution Chart:



Summary of Legislative Action: The 63rd Legislature did not enact legislation that impacted this source.

Collection Frequency: Monthly

% of Total General Fund Revenue:

FY 2004 – 0.83%

FY 2007 – 0.05%

FY 2010 – 0.01%

FY 2005 – 0.27%

FY 2008 – 0.01%

FY 2011 – 0.00%

FY 2006 – 0.10%

FY 2009 – 0.01%

FY 2012 – 0.00%

Revenue Estimate Methodology:

Changes to the Federal Estate Tax

The provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) were designed to be temporary unless Congress took action to extend the tax revisions. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 reinstated federal estate taxes for 2011 and 2012, but did not reinstate the state estate tax credit. For these

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years, the federal estate tax exemption will be \$5 million and the estate tax rate for estates valued over this amount will be 35%; however, because the state credit was not continued, Montana will not receive any increase in revenues.

Data

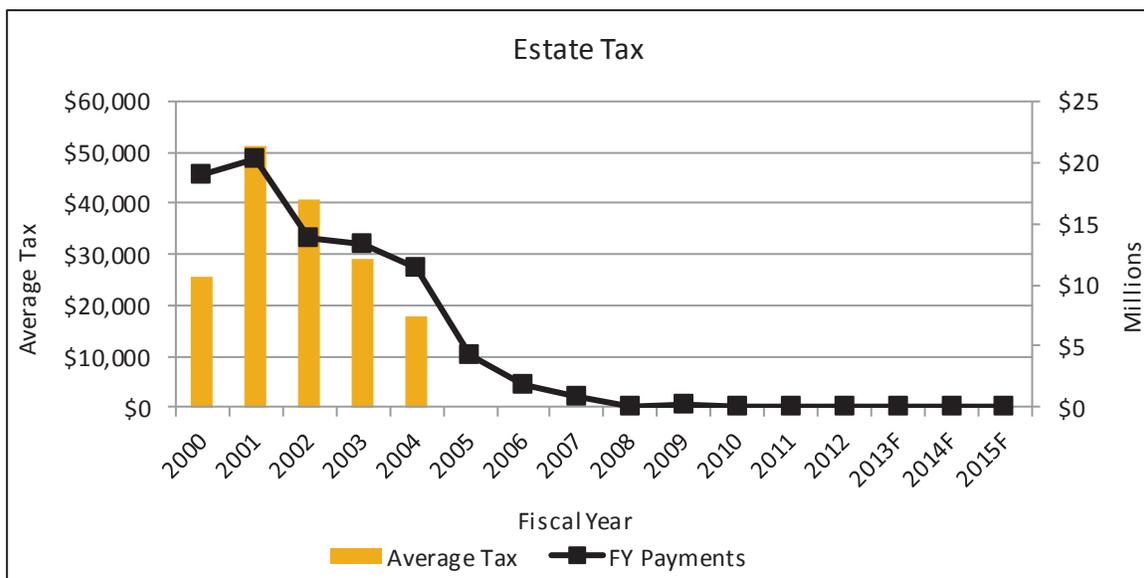
The Department of Revenue (DOR) data provides the details of fiscal year tax filers on individual estates, and the state accounting system (SABHRS) SABHRS data provides aggregate historic collections of the estate tax.

The DOR data is separated based on the individual's year of death since the estate tax laws are imposed based on the year of death. Next, all new and prior year data is combined by year of death, and that data is sorted based on total tax payment.

Analysis

Because the state credit to the federal estate tax was effectively eliminated in 2005, no recent data exists and the estimates are based on data from 2002, the year that most closely mirrored the pre-EGTRRA tax provisions. The Tax Relief Act of 2010 changed the exemptions on the decedent's taxable estate value to be \$5 million and the top tax rate for taxable estates will be 35%.

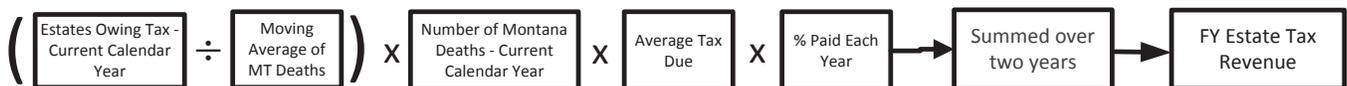
Future collections of the estate tax are developed with a complex system of averaging. First, a ratio of taxpayers to deaths is created. The product of that ratio is then adjusted in recognition of the changes in the laws governing the "death" taxes. Next, the average tax paid by taxpayer is calculated. When those quantities are multiplied, the result is the expected estate taxes for the given year of death. The figure above shows the number of taxpayers and the average tax as calculated with this methodology.



Finally, payments of the estate tax are distributed across the years based on federal tax provisions which require the estate tax to be filed within 9 months of death. A six month extension is available on the taxpayers request, however the Internal Revenue Service requires the requesting estates to estimate the tax due and pay the estimated amount.

Due to the Tax Relief Act of 2010 exclusion of the state tax credit provisions of the federal estate tax, no estate tax estimate has been included in the forecast period.

Forecast Methodology:



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Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in Senate Joint Resolution 2. It does not reflect changes, if any, enacted by the 2013 Legislature that may affect future estimates of this revenue source.

	<u>t</u>	<u>Total Tax</u>	<u>GF Tax</u>	<u>Annual</u>
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Growth</u>
Actual	2002	13.816	13.816	-31.9%
Actual	2003	13.306	13.306	-3.7%
Actual	2004	11.431	11.431	-14.1%
Actual	2005	4.191	4.191	-63.3%
Actual	2006	1.773	1.773	-57.7%
Actual	2007	0.839	0.839	-52.7%
Actual	2008	0.122	0.122	-85.4%
Actual	2009	0.217	0.217	77.7%
Actual	2010	0.091	0.091	-58.3%
Actual	2011	0.043	0.043	-52.3%
Actual	2012	0.060	0.060	38.3%
Forecast	2013	0.000	0.000	-100.0%
Forecast	2014	0.000	0.000	0.0%
Forecast	2015	0.000	0.000	0.0%

Total Tax = Previous Fiscal Total Tax × (1 + Annual Growth)

GF Tax = Total Tax

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Revenue Projection:

