Fiscal Note & Local Impact Statement

123 rd General Assembly of Ohio

BILL: **Sub. S.B. 108** DATE: **May 25, 2000**

STATUS: **As Enacted – Effective September 29, 2000** SPONSOR: **Sen. Latta**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Estate tax reduction**

State Fiscal Highlights

STATE FUND	FY 2001	FY 2002	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	$82.6 million loss	$133.5 million loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2001 is July 1, 2000 - June 30, 2001.

- The estate tax credit is increased in two steps, first to $6,600 then to $13,900. Increasing the estate tax credit will reduce estate tax revenues.
- The state share of estate tax revenues is decreased in two steps, first to 30 percent then to 20 percent. Reducing the state share of the estate tax reduces state estate tax revenues.
- Due to the lag in the filing of returns, the change in rate structure and credit will not significantly impact revenues until fiscal year 2002.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2000	FY 2001	FUTURE YEARS
Municipal corporations and townships			
Revenues	- 0 -	$4 million loss	$13 million loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Increasing the credit will reduce estate tax revenues.
- Reducing the state share of the estate tax will offset the decrease in estate tax revenues to local governments.
- The effect of exempting estates with net taxable values below $200,000 and $338,000 will alter the distribution of estates tax revenues among municipalities and townships. It is possible that some local governments may suffer decreases in their estate tax revenue.

Detailed Fiscal Analysis

Increase in Estate Tax Credit

The bill increases the credit allowed against the tax and leaves the rate structure the same. For estates of individuals dying on or after January 1, 2001 but before January 1, 2002 the credit is $6,600. This effectively exempts estates with net taxable value less than $200,000 (approximately 63 percent of estates) from the estate tax. For estates of individuals dying on or after January 1, 2002 the credit is $13,900. This effectively exempts estates with net taxable value less than $383,333 (approximately 76 percent of estates) from the estate tax.

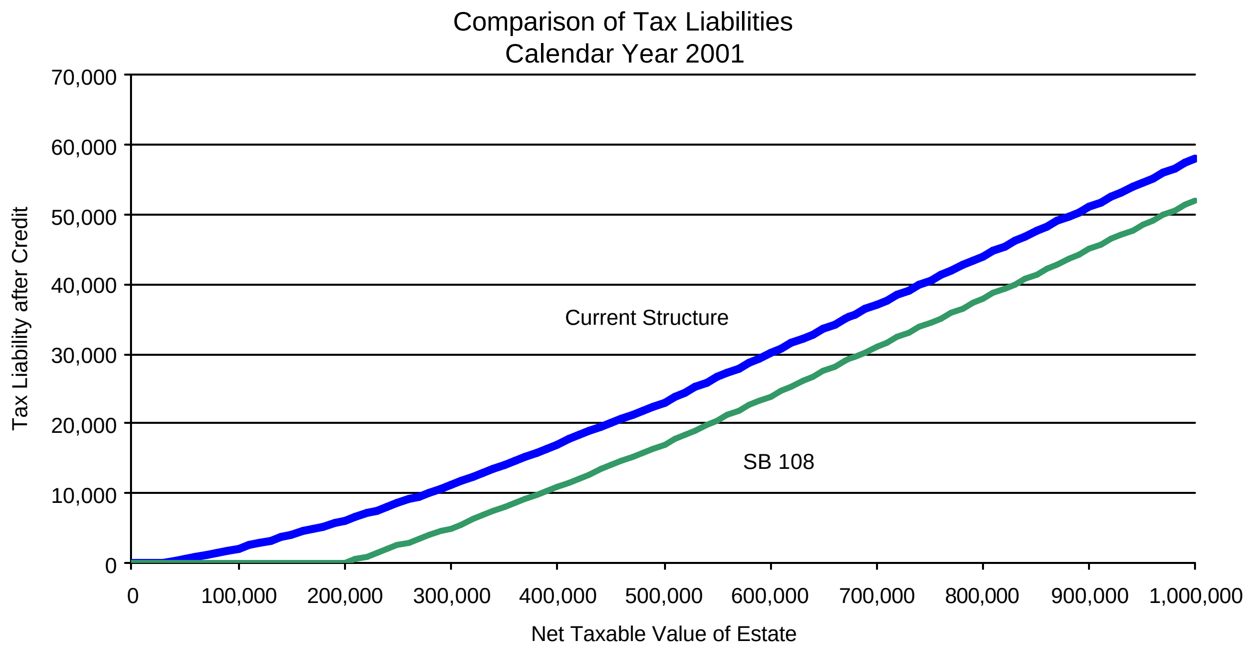
The increased credits will decrease estate tax revenues. The increase in credit to $6,600 is estimated to reduce estate tax revenues by $99 million from what revenues would have been under the current structure. The increase in credit to $13,900 is estimated to reduce estate tax revenues by $154 million from what they would have been under the current structure. The increase in credit to $6,600 will affect estate tax revenues for one year starting in the second quarter of fiscal year 2002. The increase in credit to $13,900 will affect estate tax revenues starting in the second quarter of fiscal year 2003. Estimated revenues (in millions of dollars) under the current structure and with the increased credits are presented below.

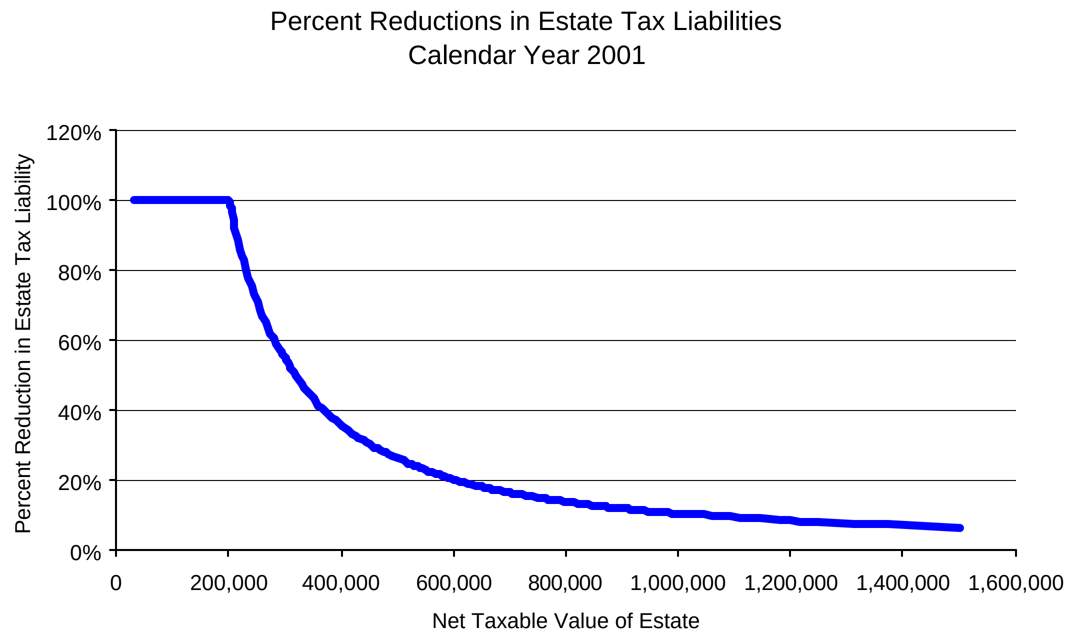
Fiscal Year	Current	Proposed
2002	$ 494.7	$ 402.1
2003	539.2	388.7

The bill also changes the allocation of estate tax revenues between the state and local governments. Currently, the municipality or township in which the tax originates receives 64 percent of the revenue and the state receives 36 percent. The state's share is credited to the GRF. For estates of individuals dying on or after January 1, 2001 but before January 1, 2002 the municipality or township in which the tax originates receives 70 percent of the revenue and the state receives 30 percent. For estates of individuals dying on or after January 1, 2002 the municipality or township in which the tax originates receives 80 percent of the revenue and the state receives 20 percent. The allocation of revenues under the current structure and the proposed structure is presented below. The change in the percentages used to allocate revenues acts to lessen the aggregate revenue loss to local governments. However, the distribution of revenues among municipalities and townships may be changed due to the effective exempting of lower valued estates.

	Total		State		Local	
Fiscal Year	Current	Proposed	Current	Proposed	Current	Proposed
2002	$ 494.7	$ 402.1	$ 178.1	$ 95.5	$ 316.6	$ 306.6
2003	539.2	388.7	194.1	60.6	345.1	328.1

The charts below provide an indication of how the change in the estate tax would affect individual estates. The first chart presents tax liabilities after credit under the current structure and the proposed structures. The second chart shows the percentage savings to estates.





Estate Tax Deduction for Family Owned Business

The bill establishes a state deduction for family owned business equal to the federal deduction for family owned businesses. The new deduction would be available for estates with dates of death on or after January 1, 2001. Because of the nine-month lag in estate tax filing requirements, the new deduction may be assumed to have no revenue impact in fiscal year 2001. The deduction is estimated (under the current estate tax structure) to reduce estate tax revenues by $0.8 million in FY 2002 and $1.3 million in FY 2003. Under the new structure, the cost is estimated to be $0.6 million in FY 2002 and $0.9 million in FY 2003. In FY 2002, the state loss is approximately $0.2 million and the local loss is approximately $0.4 million. In FY 2003, the state loss is approximately $0.1 million and the local loss is approximately $0.8 million.

Estate Tax Marital deduction

The bill requires that the trustee of a trust that qualifies for the marital deduction and is the beneficiary of an individual retirement account (IRA) must withdraw and distribute the income of the IRA at least annually to the surviving spouse. This should have little, if any, effect on estate tax revenues.

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