

Legislative Analysis



ESTATE TAX; DECOUPLE FROM FEDERAL

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House Bill 5708

Sponsor: Rep. Jack Minore

Committee: Tax Policy

Complete to 4-21-04

A SUMMARY OF HOUSE BILL 5708 AS INTRODUCED 3-30-04

House Bill (HB) 5708 would amend the Michigan Estate Tax Act to decouple from the federal estate tax for deaths on or after July 1, 2004. This bill would alter Michigan's estate tax to conform with the federal Internal Revenue Code that was in effect prior to the 2001 federal tax changes with the following provisions – 1) only estates valued at \$1 million or more would be subject to the state's estate tax, 2) estates valued at more than \$1 million would pay a tax equal to the maximum federal credit claimed in 2001 (Michigan's effective tax rate for 2001 was 5.3%), 3) assets transferred to a spouse would continue to be exempt from the state's estate tax, and 4) assets attributable to family owned businesses, including farms, are excluded from taxation. According to the Department of Treasury, this bill would affect approximately 1 percent of total deaths or 900 estates.

Michigan's estate tax, referred to as a "pick-up" tax, is tied to the Federal estate tax. The Federal estate tax includes a credit for the amount of state estate tax paid. Michigan's estate tax is equal to the maximum allowable federal state tax credit for estate taxes.

FISCAL IMPACT:

House Bill 5708 would increase estate tax revenue by an estimated \$94.4 million in FY 2004-05 and by an estimated \$130.0 million in FY 2005-06. All of the increased revenue estimated under this bill would be deposited into the Medicaid benefits trust fund.

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