

DEPARTMENT OF TAXATION

2002 Fiscal Impact Statement

1. **Patron** Tata

3. **Committee** House Finance

4. **Title** Estate Tax: Conformity with Federal
Estate Tax

2. **Bill Number** HB 694

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would conform the amount of Virginia estate tax due from an estate to the maximum amount of the federal tax credit for state death taxes as permitted under federal estate tax law. Under current law, the amount of Virginia estate tax cannot be less than the federal credit under federal law as such law existed on January 1, 1978.

This bill would be effective for the estates of Virginia decedents dying on and after January 1, 2002.

6. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2001-02	\$0	GF
2002-03	<\$23.8 million>	GF
2003-04	<\$55.8 million>	GF

7. **Budget amendment necessary:** Yes.

ITEM(S): Page 1, Revenue Estimates

8. **Fiscal implications:**

Administrative Costs

There are costs associated with modifying the system to implement this legislation. TAX is currently in the process of replacing its automated systems as part of a partnership with AMS. As a result, TAX will be maintaining two systems – the current STARS system and the new IRMS system – for a period of time as a contingency. The contract with AMS generally provides for the costs of implementing routine legislation. However, changes attributable to major legislation are not within the scope of the

contract. Changes to the new IRMS system necessitated by this legislation will be covered under the AMS contract changes.

Revenue Impact

This bill is estimated to reduce General Fund revenues by \$23.8 million in Fiscal Year 2003 and \$55.8 million in Fiscal Year 2004.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Estate Tax Credit for State Death Taxes

A credit is allowed against the Federal estate tax for estate taxes paid to any state with respect to property included in the decedent's gross estate. The maximum amount of the credit allowable for state death taxes is determined under a graduated rate table, based on the size of the decedent's adjusted taxable estate.

Virginia Estate Tax

Virginia imposes a "pick-up" estate tax that is equal to the maximum amount of the federal credit for state death taxes as it existed on January 1, 1978. Prior to recently enacted federal legislation, the maximum federal credit amounts have not changed since 1978.

Recent Federal Legislation

Under the Economic Growth and Tax Relief Act of 2001 enacted by Congress, the state death tax credit is reduced incrementally beginning in 2002, and is fully repealed in 2005. For 2005 and years thereafter, a deduction from the taxable estate is allowed for any state death taxes actually paid.

Year of Death	% Reduction of Federal Credit for State Death Taxes
2002	25%
2003	50%
2004	75%
2005	Credit Repealed

Effect on Virginia Estate Tax

The Virginia Estate Tax is equal to the federal credit for state death taxes as of January 1, 1978. The effect of the federal legislation on the Virginia estate tax is as follows:

- ◆ The estates of Virginia decedents dying between January 1, 2002 and December 31, 2004 would pay the Virginia estate tax at the 1978 rates, but would receive a partial credit for this tax in the federal estate tax return; and
- ◆ The estates of Virginia decedents dying on and after January 1, 2005, would pay the Virginia estate tax at the 1978 rates until the entire federal estate tax is repealed in 2010.

Proposed Legislation

This bill would allow the Virginia Estate Tax to be phased out in the same manner as the federal credit upon which the Virginia tax is based.

cc : Secretary of Finance

Date: 1/21/02/NMS

Document: S:\2002leg\WorkInProgress\OTPwork\House Bills\HB0694F161.doc