

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** House Bill 13 (First Edition)  
**SHORT TITLE:** Simplify and Reduce Inheritance Tax  
**SPONSOR(S):** Representative Cansler

<b>FISCAL IMPACT</b>						
	Yes (x)	No ( )	No Estimate Available ( )			
	<u>FY 97-98</u>	<u>FY 98-99</u>	<u>FY 99-00</u>	<u>FY 00-01</u>	<u>FY 01-02</u>	<u>FY 02-03</u>
<b>REVENUES</b>						
<b>General Fund</b>	\$ (5.78)	(18.16)	(32.35)	(48.50)	(66.90)	(76.70)
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Revenue Division of Personal Taxes						
<b>EFFECTIVE DATE:</b> January 1, 1998						

**BILL SUMMARY:**

The proposed act repeals the State inheritance tax over a five year period and makes clarifying changes governing the imposition of an estate tax.

**BACKGROUND SUMMARY**

If the federal state death tax credit is greater than the State inheritance tax then the difference between the two is the State Estate Tax. The State Estate Tax is added to the inheritance tax to determine the North Carolina total tax due. (A beneficiary would pay to the State an inheritance tax and an estate tax if the inheritance tax were less than the federal state death tax credit.) Federal law requires that an amount equal to the state death tax credit be paid, if not to the State then to the federal government. When the federal state death tax credit is less than the State inheritance tax then the net tax owed the State is the inheritance tax. The proposed act eliminates an inheritance tax over a five year period.

The federal government allows a tax credit of \$192,000 which is equal to an exemption of \$600,000; often referred to as the federal equivalent exemption. North Carolina allows a tax credit of \$33,150 which is equal to a \$600,000 exemption for one Class A beneficiary. Under current State law, Class B and C beneficiaries are not allowed any credit.

**ASSUMPTIONS AND METHODOLOGY:**

According to the 1993 State analysis of inheritance tax collections provided by the Department of Revenue, 53% of the tax collected represents the federal estate death tax credit or pick-up tax. This amount is required by federal law to be paid either to the State or to the federal government on probated estates. The 53% is assumed to be constant for fiscal years 1997-98 through fiscal year 2001-02. The bill proposes to repeal the remaining 47% of the inheritance tax collections over a five year period.

The expected total inheritance and estate tax collection for fiscal year 1997-98 is \$125.5 million. The expected revenue loss for fiscal year 1997-98 is 47% of \$125.5 million times a 20% repeal of the expected revenue for that year. The losses associated with fiscal years 1998-99 through 2001-02 are reduced by the annual percent reductions set out in section one of the bill. The year over year growth in the estimate is 7%; the growth in inheritance tax collections for fiscal year 1997-98 through fiscal year 2001-02 as predicted by the General Fund Financial Model.

The bill is effective for decedents dying on or after January 1, 1998. Under State law beneficiaries of estates probated in North Carolina have nine months to file inheritance and estate tax returns. In fiscal years 1997-98 through 2001-02, it is assumed that at least half of the deaths occurring in the calendar year will be probated in the corresponding fiscal year and the remainder will be carried forward into the next fiscal year.

The actual revenue loss is very volatile and depends on the following unknowns:

1. An increases in the \$600,000 federal exemption.
2. The number of estates probated in the State in a fiscal year and the size of these estates.

**SOURCES OF DATA:**

Department of Revenue  
Federal and State Inheritance Tax Returns  
DRI, Forecast of State Personal Income

**FISCAL RESEARCH DIVISION**

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