Estate Tax Decoupling

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Summary

- **Unless legislatures act, states will lose billions of dollars in tax revenues because of a change in federal estate tax law.**
- **In order to preserve critical tax revenues, states need to "decouple" from the 2001 federal estate tax law amendments.**
- **With severe state budget shortfalls, 2004 is a bad year to lose estate tax revenues.**
- **A loss of revenue from estate taxes will jeopardize spending on a range of crucial state programs, such as health, transportation and education.**
- **This is the wrong time to provide additional tax breaks to the rich.**
- **Eighteen states and the District of Columbia are currently decoupled from the federal estate tax.**

Unless legislatures act, states will lose billions of dollars in tax revenues because of a change in federal estate tax law.

In 2001, Congress enacted a sweeping tax reduction law that includes a phaseout of the federal estate tax, culminating in a full repeal in 2010. On a much faster track, the law repeals the federal estate tax credit over the next three years. Most estate taxes in the states are linked to this federal credit, and if not unlinked, states would collectively lose $13 billion in revenues by 2007.

In order to preserve critical tax revenues, states need to "decouple" from the 2001 federal estate tax law amendments.

Decoupling means protecting state taxes by linking the state tax code to the federal law as it existed prior to the 2001 amendments. In the short term, decoupling would maintain the level of estate tax revenues received in prior years. In the long run, decoupling would prevent the total elimination of estate taxes in 2010. Nearly every state has linked its estate tax law to the federal code, so repeal of the federal tax would have the effect of repealing state estate taxes.

With severe state budget shortfalls, 2004 is a bad year to lose estate tax revenues.

States have been struggling with unprecedented budget deficits, and the bulk of their problems come from reduced revenues. With states scrambling to balance their budgets, it makes no sense to let a federal policy, enacted during completely different economic times, dictate a state's ability to serve its people.

A loss of revenue from estate taxes will jeopardize spending on a range of crucial state programs, such as health, transportation and education.

When public services are cut, low-income families suffer first. In addition, when programs are cut during hard economic times it means less consumer spending, further damaging small businesses and exacerbating the weak economy.

This is the wrong time to provide additional tax breaks to the rich.

Estate taxes are designed to impact only the wealthiest Americans. The federal estate tax, for example, is paid on behalf of approximately two percent of those who die each year. Allowing the repeal of estate taxes has the effect of enriching heirs of millionaires and billionaires while hurting families who struggle to make ends meet.

Eighteen states and the District of Columbia are currently decoupled from the federal estate tax.

Of these, 12 states (IL, ME, MD, MA, MN, NE, NJ, NC, PA, RI, VT, WI) enacted legislation to decouple from the federal changes. Six other states (KA, NY, OH, OR, VA, WA) and the District of Columbia have laws that do not automatically change with federal law—they remain decoupled without taking further legislative action.[1]

This policy summary relies in large part on information from the Center on Budget and Policy Priorities.

RETAINED REVENUES IF STATES FULLY DECOUPLE FROM FEDERAL ESTATE TAX
Cumulative Total for 2003-07 (in millions)

Alabama	$213.3
Alaska	10.1
Arizona	282.7
Arkansas	85.3
California	5,229.3
Colorado	216.8
Connecticut	463.0
Delaware	122.3
Florida	2,599.8
Georgia	422.0
Hawaii	110.7
Idaho	38.9
Indiana	64.3
Iowa	119.8
Kentucky	181.9
Louisiana	81.0
Michigan	565.0
Mississippi	107.9
Missouri	565.6
Montana	21.8
Nevada	144.5
New Hampshire	102.4
New Mexico	85.8
North Dakota	19.3
Oklahoma	48.2
South Carolina	190.5
South Dakota	18.7
Tennessee	70.9
Texas	1,112.0
Utah	56.6
West Virginia	65.9
Wyoming	34.6

Source: Center on Budget and Policy Priorities

Endnotes

[1] Elizabeth McNichol, "Many States Are Decoupling from the Federal Estate Tax Cut," Center on Budget and Policy Priorities, August 7, 2003.

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For more information...

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Decoupling from federal estate tax changes

Language based on law enacted in Rhode Island:

> For decedents whose death occurred on or after January 1, 2002, a tax is imposed upon the transfer of the net estate of every resident or nonresident decedent as a tax upon the right to transfer. The tax is a sum equal to the maximum credit for state death taxes allowed by 26 U.S.C. Section 2011 *as it was in effect as of January 1, 2001*, provided, however, any scheduled increase in the unified credit provided in 26 U.S.C. Section 2010 in effect on January 1, 2001 or thereafter shall not apply.

Language based on law enacted in North Carolina:

> The amount of the estate tax imposed by this section for estates of decedents dying on or after January 1, 2002, is the maximum credit for state death taxes allowed under section 2011 of the Code *without regard to the phase-out of that credit under subdivision (b) (2) of that section*.

Language based on law enacted in Maryland:

> (a) Notwithstanding an Act of Congress that repeals or reduces the federal credit under § 2011 of the Internal Revenue Code, the provisions of this subtitle in effect before the passage of the Act of Congress shall apply with respect to a decedent who dies after the effective date of the Act of Congress so as to continue the state estate tax in force without reduction in the same manner as if the federal credit had not been repealed or reduced.
>
> (b)(1) Except as provided in paragraph (2) of this subsection, after the effective date of an Act of Congress described in subsection (a) of this section, the state estate tax shall be determined using:
> (i) the federal credit allowable by § 2011 of the Internal Revenue Code as in effect before the reduction or repeal of the federal credit pursuant to the Act of Congress; and
> (ii) other provisions of federal estate tax law, including the applicable unified credit allowed against the federal estate tax, as in effect on the date of the decedent's death.
>
> (2) If the federal estate tax is not in effect on the date of the decedent's death, the Maryland estate tax shall be determined using:
> (i) the federal credit allowable by § 2011 of the Internal Revenue Code as in effect before the reduction or repeal of the federal credit pursuant to the Act of Congress; and
> (ii) other provisions of federal estate tax law, including the applicable unified credit allowed against the federal estate tax, as in effect on the date immediately preceding the effective date of the repeal of the federal estate tax.