



Facts Matter is a series of briefs highlighting Michigan's budget and tax system

Estate Tax:

- 22 states levy an estate or inheritance tax
- 14 states have “decoupled” from federal estate tax
- Michigan could collect \$250 million a year by taxing estates

1115 South Pennsylvania Avenue
Suite 202
Lansing, MI 48912
(517) 487-5436
Web site: www.MiLHS.org

Facts Matter

Estate Taxes: Michigan Stands to Gain Revenue

Taxes paid on inherited wealth have been a traditional source of revenue for Michigan and other states.

Michigan and other states used to receive a portion of the federal estate tax called a “pick-up” tax. In 2001, however, Congress approved a phase-out of the federal estate tax by 2010. Between 2001 and 2005, it also phased out the state share, eliminating the pick-up tax completely in 2005.

In fiscal year 2000, Michigan collected \$185.5 million in estate taxes. Michigan now collects nothing on the estates of its wealthiest citizens.

Other states have acted

Each state has the option of “decoupling”—divorcing itself—from the federal estate tax and reverting to the federal law as it existed prior to the 2001 changes.

According to the Center on Budget and Policy Priorities, state taxes on inherited wealth are common. In all, 22 states collect estate or inheritance taxes. They are:

- 11 states (Illinois, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New York, North Carolina, Oregon, Rhode Island and Vermont) and the District of Columbia that decoupled from the federal estate tax and levied an estate tax similar to the earlier pick-up tax;
- Three states (Connecticut, Kansas and Washington) that replaced their pick-up taxes with estate taxes not tied to the federal tax; and
- Eight states (Indiana, Iowa, Kentucky, Nebraska, Ohio, Oklahoma, Pennsylvania and Tennessee) that have a state inheritance tax that was never connected to the federal pick-up tax.

Of the 22 states, Maryland and New Jersey levy both an estate tax that is similar to the 2001 tax and a separate inheritance tax.

A Michigan inheritance tax adopted in 1899 was eliminated in 1993, so Michigan has neither a separate inheritance tax nor has it acted to decouple to restore the pick-up tax revenue.

Needed revenues

At a time when state revenues are falling dramatically, decoupling from the estate tax would generate revenue that could help protect services to vulnerable citizens, public safety and education.

Gov. Jennifer Granholm supports a state estate tax. She most recently called for decoupling to help balance the fiscal year 2008 budget. The governor called for taxing estates valued at more than \$2 million, except for family farms or businesses. The bills were not passed.

The League estimates that Michigan could collect more than \$250 million a year by “decoupling” and returning to the 2001 status when estates of \$675,000 or more were taxed. If estates were limited to those of \$2 million or higher, the revenue generated would be an estimated \$160 million a year.

The federal Economic Growth and Tax Relief Reconciliation Act of 2001, which phased out the federal estate tax, is scheduled to sunset in 2011. If it sunsets, it would allow the federal tax code to revert back to provisions in place in 2001 and restore the state pick-up tax, in which case revenue would flow

to Michigan. In lieu of the sunset, Congress could repeal the estate tax altogether or create another estate tax.

Other reasons to decouple or pass a state estate tax

- A study by the Brookings Institute found estate taxes give a strong incentive for tax-deductible charitable giving. Without the federal estate tax, it could result in the loss of as much as \$10 billion in annual contributions nationwide.
- Bill Gates Sr., the father of Microsoft co-founder Bill Gates, supports restoration of the federal estate tax. He says estate taxes should be viewed as an opportunity cost that allows a contribution from those who have benefited the most from a free and stable society.
- In 2000, the wealthiest 1 percent of families owned more than 40 percent of the nation’s private assets, up from about 20 percent in 1976, according to the Census Bureau. The lack of an estate tax makes a state’s revenue structure more regressive.
- Most other Great Lakes states—Illinois, Ohio, Indiana and Minnesota—have an estate or inheritance tax.

Calendar Year	Estate Tax Filing Threshold	Highest Estate & Gift Tax Rate	State Credit Percentage
2001 (Base year)	\$675,000	60%	100%
2002	\$1,000,000	50%	75%
2003	\$1,000,000	49%	50%
2004	\$1,500,000	48%	25%
2005	\$1,500,000	47%	0%
2006	\$2,000,000	46%	
2007	\$2,000,000	45%	
2008	\$2,000,000	45%	
2009	\$3,500,000	45%	
2010	Tax repealed	35% (Gift Tax only)	