Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

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Vermont Estate Tax Changes – Administration's Misc. Tax Bill Proposal

This bill proposes a number of significant changes to the Vermont estate tax structure. The current Vermont estate tax is a complicated system that is largely the result of the state's attempt to retain the link to the federal estate tax credit amounts that existed in 2001 prior to federal changes made to the estate tax in the Economic Growth and Tax Relief Reconciliation Act (EGTRRA). The proposed changes are in effective date order.

<u>January 1, 2015</u>

1) updates the annual link of the Vermont estate tax to the federal internal revenue code

<u>January 1, 2016</u>

2) lowers the estate tax exclusion amount to $2.45 million from $2.75 million
3) applies a flat 16% tax rate to estate value over the exclusion threshold instead of applying graduated tax rates from 1% to 16% from the first dollar value of a taxable estate
4) includes federal taxable gifts made within *one* year of death in the taxable value of the Vermont estate
5) eliminate a secondary federal estate tax calculation for some estates that includes federal taxable gifts in the value of the estate

<u>January 1, 2018</u>

6) increases the state estate tax exclusion amount from $2.45 million to $3.9 million
7) includes federal taxable gifts made within *two* years of death in the taxable value of the Vermont estate

<u>January 1, 2020</u>

8) increases the state estate tax exclusion amount to the federal exclusion amount, which is indexed annually
9) includes federal taxable gifts made within *three* years of death in the taxable value of the Vermont estate

The revenue analysis is the effect of the proposed estate tax changes over 5½ fiscal years using the average change over the entire time period. The results are different in each fiscal year depending on the mix of estates of various sizes that filed returns in that particular year. This analysis does not include possible behavioral changes which may negatively affect revenues due to the increased ability of a taxpayer to utilize gifting strategies to avoid the state estate tax altogether. Under current law, a taxpayer must gift the entire estate in order to completely avoid the state estate tax. Under the proposal, a taxpayer must only gift the portion of the estate required to get below the state estate tax threshold in order to avoid paying state estate taxes, with the exception of the taxable gifts made within 1-3 years prior to death.

Revenue Analysis

Current Law Calculation and Proposal Calculation at Various Exclusion Amounts

Fiscal Year	#Returns	Current Law	2.45M [1]	3.9M [2]	6.0M [3]
FY11	76	10,959,827	10,497,804	6,089,343	3,842,216
FY12	94	35,195,162	35,750,642	29,434,666	24,728,629
FY13	82	14,761,987	15,017,826	9,571,804	6,061,514
FY14	92	17,891,929	17,705,039	12,894,337	9,563,512
FY15	127	43,537,799	43,797,675	36,680,754	31,992,515
FY16 (1/2)	51	13,165,219	13,635,087	10,729,200	9,002,783
Grand Total	**522**	**135,511,922**	**136,404,074**	**105,400,104**	**85,191,169**
Annualized Amount		**24,640,000**	**24,800,000**	**19,160,000**	**15,490,000**
Difference from Previous*			160,000	(5,640,000)	(3,670,000)

* The $2.45 column is compared to Current Law, the $3.9 column is compared to $2.45, and the $6.0 column is compared to the $3.9 million.

[1] tax years 2016 and 2017 proposed exclusion amount

[2] tax years 2018 and 2019 proposed exclusion amount

[3] federal exclusion amount *projected* for tax year 2020

Fiscal Year Analysis

FY2017	FY 2018	FY 2019	FY 2020	FY 2021
0	**(5.6)**	**0**	**0**	**(3.7)**