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AMENDMENT

OFFERED IN THE HOUSE:

By: Judiciary

To: _____ HOUSE BILL No. 388

SENATE BILL No. _____

PAGE: 1

LINE: 12

Line 12 Delet: immediately in accordance with AS 01.10.070 (c).

Line 12 Insert: xxxxx after "effect" with the passage of the US
Congress, of legislation repealing federal
estate tax.



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

May 10, 1983

MEMORANDUM

To: Representative Mae Tischer
From: Leonard Steinberg, Research Staff *Leonard Steinberg*
Re: Estate Taxes -- Research Request 83-154

Gail Thibodeau of your office asked for the following state and federal estate tax information:

- 1) the justification for the taxes;
- 2) the amount of income received from these taxes for the last four years;
- 3) the percentage of total revenue represented by estate taxes;
- 4) the amount of estate tax revenue collected by Alaska from residents and non-residents; and
- 5) the hardships that may result from estate taxes.

Justification for Estate Taxes

Estate taxes originated with the Populist political movement in the United States; the goal was to reduce certain excise taxes by taxing the wealthy. The federal government has levied a tax on the transfer of wealth at death continuously since 1916.

The primary reasons Congress passed the estate tax in 1916 were:

- 1) redistribution of wealth by breaking up large concentrations of wealth at the time of death; and
- 2) raising additional revenue for the federal government.

Another justification for estate taxes is that the appreciation in value that occurs between the time property is acquired and a person's death is income which normally escapes income taxation; estate taxes recoup part of this loss.

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Following its imposition, individuals avoided the new estate tax by giving away large portions of their wealth prior to their death. Consequently, Congress has imposed a gift tax since 1932. The gift tax rate was substantially less than the estate tax rate until the two were unified by the Tax Reform Act of 1976.

The justifications for state estate taxes are the same as for federal estate taxes. However, according to Mr. Joe Donohue, Deputy Commissioner of Revenue, Alaska has the additional justification that its tax brings in revenue to the State without increasing the tax liability of an estate. Mr. Donohue explained that Alaska's estate taxes are credited, dollar for dollar, against the taxes that would otherwise be paid to the federal government. Therefore, until federal estate tax law is changed, a reduction in Alaska's estate taxes will not present a savings to the estate but only increase the revenues paid to the federal government.

Estate Tax Revenues

The amount and number of State estate tax collections, their percentage of total State revenue, and the amount of State revenues are listed below in Table 1. In fiscal year 1982, 325 estates filed tax returns with the Department of Revenue; 317 (86 percent) of the filed returns received a certificate of non-tax liability while 52 (14 percent) had taxes to pay. The estate tax revenues received in 1982 are not directly related to the 1982 returns because estates have 15 months to make their payments and are frequently granted 10-15 year extensions. Estate taxes during the period 1978-1982 have always been substantially less than one-half of one percent of the State's total unrestricted revenues.

Table 1

State Estate Taxes and Unrestricted State Revenues -- FY1978-1982

	1982	1981	1980	1979	1978
# of State Estate Tax Returns*	325	369	382	407	334
# of Paying Returns* †	52	42	N/A	57	55
State Estate Taxes Collected	\$334,676	\$453,492	\$197,592	\$136,685	\$244,143
State Unrestricted Revenues(\$millions)	\$4,108.4	\$3,718.2	\$2,501.2	\$1,133.0	\$764.9
Estate Taxes as a % of State Revenues	.008%	.012%	.008%	.012%	.032%

* These figures are for calender years and are based on the number of certificates issued for tax and non-tax liability.

† Eighty to ninety percent of state estate tax returns result in the the Department of Revenue issuing certificates of non-tax liability; those returns which actually impose State estate tax liability are listed in this column.

According to Ms. Eloise Herrick of the Department of Revenue, State estate tax records do not break down the revenues collected by residency status. However, Ms. Herrick stated that in her opinion, very little revenue is collected from non-residents. A more accurate determination of how much money was collected from residents and non-residents would require corrolating the revenues received with individual returns and reviewing each individual return to determine residency status; because this would require substantial time and effort, we have not pursued this information at this time.

Table 2 below illustrates the number of federal estate tax returns and the revenues collected by the federal government from both Alaska and the nation. The table also shows the percentage of total federal revenue represented by estate taxes. For example, in federal fiscal year 1982, 159 estate tax returns were filed with the federal government from Alaska and 134,965 were filed nationally. The federal government collected approximately three million dollars in estate taxes from Alaskans and eight billion dollars nationally in 1982. Estate taxes contributed 1.3 percent of the total federal revenue received in 1982.

Table 2

Federal Estate Taxes -- Federal FY1978-1982

(\$ in thousands)

	1982	1981	1980	1979	1978
# of Alaska Federal Estate Tax Returns	159	152	145	156	129
Total # of Estate Tax Returns Filed	134,965	145,617	148,228	159,404	160,152
Estate Taxes Paid by Alaskans	\$3,081	\$2,097	\$2,285	\$2,689	\$2,412
Total Estate Taxes Paid	\$8,035,335	\$6,694,541	\$6,282,247	\$5,344,176	\$5,242,080
Estate Taxes as a % of Total Revenue	1.3%	1.1%	1.2%	1.2%	1.3%
Total Federal Revenue	\$626.8* (bil.)	\$599.2 (bil.)	\$517.1 (bil.)	\$463.3 (bil.)	\$399.6 (bil.)

* Estimate

Federal gift taxes, because they were created to stop estate tax avoidance, are often evaluated in conjunction with federal estate taxes. Table 3 presents information on federal gift taxes. As Table 3 illustrates, gift taxes add relatively little to federal revenue collections.

Table 3

Federal Gift and Estate Taxes and Total Revenues -- 1978-1982

(\$ in thousands)

	1982	1981	1980	1979	1978
# of Alaska Gift Tax Returns	98	252	252	260	193
Total # of Gift Tax Returns Filed	99,533	198,620	215,983	201,785	195,194
Gift Taxes Paid by Alaskans	\$37	\$15	\$66	\$117	\$60
Total Gift Taxes Paid	\$108,038	\$215,745	\$216,134	\$174,899	\$139,419
Total Gift Taxes as a % of Total Revenue	.02%	.04%	.04%	.04%	.03%
Total Federal Revenue	\$626.8* (bil.)	\$599.3 (bil.)	\$517.1 (bil.)	\$463.3 (bil.)	\$399.6 (bil.)

* Estimate

Hardship Cases

Information regarding the frequency of cases in which a family must sell everything to pay estate taxes is not readily available. Large real estate holdings, such as farms, pose the most common hardships; families have reportedly been required to sell farms to pay estate taxes. However, due to the urgency of completing this request, we have not been able to provide a substantive response to this question. Please let us know if you would like additional research performed on this issue.

Several changes to federal tax laws have attempted to reduce the hardships that may result from estate taxes. The Tax Reform Act of 1976 made the following changes:

- increased the value of estates which can escape taxation from \$60,000 to \$175,000;

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- allowed farms and other closely held businesses to be valued at less than fair market value; and
- increased marital deductions.

The Economic Recovery Tax Act of 1981 also attempted to reduce hardships by:

- further increasing the value of estates exempt from taxation to \$600,000;
- increasing the amount by which farms and closely held businesses can be undervalued; and
- allowing for unlimited transfers of property among spouses.

Furthermore, the 1981 Act extended the payment period for certain estate taxes to 15 years, and lowered the tax rates from a maximum of 70 to 50 percent.

* * * * *

We hope this information is helpful to you. Please let us know if you would like us to do any additional research.

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I. REQUEST

Bill/Resolution No: HB 388
 Title: Repeal of state estate tax.
 Sponsor: Tischer
 Requestor: Judiciary Committee

II. FISCAL DETAIL

Agency Affected: Revenue
 Program Category Affected: _____
 BRU, Program of Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
OPERATING						
100 PERSONAL SERVICES	-	-	-	-	-	-
200 TRAVEL	-	-	-	-	-	-
300 CONTRACTUAL	-	-	-	-	-	-
400 COMMODITIES	-	-	-	-	-	-
500 EQUIPMENT	-	-	-	-	-	-
600 LANDS & STRUCTURES	-	-	-	-	-	-
700 GRANTS, CLAIMS, ETC.	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	(300.0)	(300.0)	(300.0)	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER (Specify Source)	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

III. SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

The repeal of AS 43.31 would reduce general fund tax receipts by approximately \$300,000 per year based on past the five-year average. However, there would be no reduction in the tax paid by the estate. The repeal would only result in the tax being paid to the Federal Government rather than the Department of Revenue.

IV. ANALYSIS: Attach a separate page for any Analysis.

Prepared By: Robert W. Elliott
 Division: Revenue - Research

Phone: 465-2173
 Date: 5/12/83

Approved by Commissioner: Joseph J. Donohue
 Department: Revenue

Date: _____

Distribution:

- Original to Legislative Finance
- Copy to Office of Management and Budget (for Legislature introduced bills)
- Copy to Department (for Governor introduced bills)
- Copy to Sponsor
- Copy to Requestor (if different from Sponsor)

IV. Analysis

None of AS 13.16.610 should be repealed as there still is an apportionment of federal estate taxes required.

HB 388 file

WIZARD OF ID

by Brant parker and Johnny hart

