HOUSE RESEARCH

Bill Summary

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Overview

This bill increases the exemptions under the estate and gift tax to equal the exclusion amounts under the similar federal taxes. Under present law, the exemptions under both Minnesota taxes are $1 million. The federal exclusion amounts are indexed for inflation and are $5.34 million for decedents dying in 2014 and gifts made in 2014. In addition, the bill adopts the federal portability rules that allow a surviving spouse to carryover or inherit any portion of the exclusion that was not used on the death of the first spouse.

The increase in the Minnesota exemptions are retroactive to decedents dying after June 30, 2013, and for gifts made after June 30, 2013 (the effective date of the gift tax). In calendar year 2013, the federal exclusion amount was $5.25 million.

The bill also repeals the $4 million special exemption under the estate tax for qualifying farmland and small business property.

Section

1   **Filing requirement; estate tax.** Provides the requirement to file a Minnesota estate tax return only applies if the estate is required to file a federal estate tax return.

2   **Definition of taxable estate.** Eliminates the subtraction for the qualified farm and small business property in the definition of Minnesota adjusted taxable estate. This subtraction, which can be up to $4 million, is repealed by sections 3 and 5. Adoption of the federal exclusion amount by section 3 makes the general exemption larger than the combination of the current general exemption and the special exemption.

Section

3	**Federal exclusion amount; estate tax.** Adopts the federal exclusion (by basing the tax limit computation on the federal unified credit under current, not 2000, federal law) for purposes of calculating Minnesota estate tax liability and eliminates the farm and small business exemptions. The federal exclusion amount is set at $5 million, indexed for inflation. For decedents dying in 2013, the exemption amount was $5.25 million and is $5.34 million for decedents dying in 2014. In addition, this section adopts the federal "portability" rules that allow a surviving spouse to inherit the amount of the exclusion that is not used on the death of the first spouse.
4	**Gift tax nontaxable amount.** Increases the lifetime credit against the gift tax to be equal to the exclusion amount under the unified credits for the federal estate and gift tax. The Minnesota gift tax is not unified with the estate tax, unlike the federal tax. As a result, making taxable gifts does not automatically reduce the Minnesota estate tax exemption. (If the donor dies within three years of making a taxable gift, it will reduce the estate tax exemption.)
5	**Repealer.** Repeals the special estate exemption for qualified farm and small business property and related recapture tax used to enforce ongoing compliance with the exemption's requirements.

Section	Description
289A.10	Filing requirement for recapture tax – e.g., if qualified heirs fail to use farm or small business exemption property as required by their agreement
289A.12	Filing requirement for information returns to verify compliance with the qualified farm and small business exemptions
289A.18	Due dates for filing recapture tax returns
289A.20	Payment dates for recapture returns
291.03, subd. 8	Definitions related to qualified farm and small business property
291.03, subd. 9	Qualified small property exemption
291.03, subd. 10	Qualified farm property exemption
291.03, subd. 11	Imposition of recapture tax