HOUSE RESEARCH
Bill Summary

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Subject: Estate tax – conforming to federal exclusion amount

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Overview

This bill phases up the exemption under the Minnesota estate tax to the amount of the federal exclusion in annual steps so that the Minnesota exemption equals the federal exclusion amount starting for decedents dying in 2019. The tax rates are increased to partially offset the effect of the increased exemption amount, so that a flat rate of 16 percent applies starting for decedents dying in 2018. The phase-in schedule of the zero bracket amount under present law compared with the bill are shown in the table.

Deaths during calendar year	Present law	H.F. 958
2015	$1,400,000	$2,000,000
2016	$1,600,000	$3,000,000
2017	$1,800,000	$4,000,000
2018	$2,000,000	$5,000,000
2019	$2,000,000	federal amount

The bill also eliminates the special subtractions for qualified farm and small business property for decedents dying in 2018; the maximum amount of these subtractions, when added to the current Minnesota zero bracket amount, cannot exceed $5 million, the amount of the zero bracket amount under the bill for that year.

Section

1 **Estate tax filing requirement.** Modifies the estate tax filing requirement to be consistent with the increase in the zero bracket (or exemption) amount proposed under sections 2 and 3.

2 **Subtractions in computing estate tax.** Modifies computation of the subtraction from the taxable estate for qualified small business and farm property to reflect the increases in the zero bracket amounts under section 3. The combination of these subtractions is limited to $5 million minus the zero bracket amount ($1.4 million for 2015 deaths). Thus, with section 3's phase up in the zero bracket or exemption amount to $5 million for 2018 deaths, those subtractions would effectively be eliminated in 2018.

Effective for 2019 deaths, the federal exclusion for the calendar year of the decedent's death would be allowed as a subtraction in computing the taxable estate, plus any amount of the federal deceased spouse unused exclusion amount (DSUEA) that the estate is entitled to. The federal exclusion amount for 2015 deaths is $5.43 million and is indexed for inflation. The federal DSUEA allows a surviving spouse to inherit the portion of the federal exclusion amount that the deceased spouse did not use. This is often referred to as making the exemption or exclusion portable between the spouses without requiring them to divide ownership of their assets and establishing trust to avoid "wasting" the exclusion on the death of the first spouse. Taxable lifetime gifts made by the deceased spouse reduce this amount.

3 **Estate tax rate schedule.** Modifies the estate tax rate schedule to phase up the zero bracket amount to $5 million over four years – to $2 million for 2015 deaths (versus $1.4 million under present law) and in annual $1 million increases after that. The rate schedule is compressed so that the current top rate of 16 percent becomes a flat rate for 2018 deaths.