

HOUSE RESEARCH

Bill Summary

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Subject: Estate tax – adopt federal exclusion amount

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Overview

This bill adopts federal exclusion amount under the federal estate tax for Minnesota estate tax purposes, starting for 2015 deaths. This will increase the Minnesota zero bracket amount of \$1.4 million (for 2015 deaths, scheduled to rise to \$2 million for 2018 deaths) to \$5.43 million, indexed annually for inflation. In addition, the bill adopts the federal portability rules that allow a surviving spouse to carryover or inherit an unused amount of the exclusion from the first spouse.

The bill also repeals the special subtractions for qualifying farmland and small business properties; the maximum amount of these subtractions, when added to the current Minnesota zero bracket amount, cannot exceed \$5 million, less than the federal exclusion amount.

Section

1 Filing requirement. Limits the estate tax filing requirement to estates that are required to file a federal return. This is consistent with other changes made by the bill to adopt the federal exclusion amount for Minnesota estate tax purposes.

Effective date: Retroactive to decedents dying after December 31, 2014

2 Federal exclusion amount subtracted. Replaces the subtractions for qualified small business property and qualified farm property in computing the Minnesota taxable estate with a subtraction for the federal exclusion amount.

Under present law, the Minnesota estate tax exempts the first \$1.4 million of an estate's value from tax. This is done under the tax rate schedule as a zero bracket amount and is set in law to rise in \$200,000/year increments to \$2 million starting with deaths in 2018. Adopting the federal exclusion amount as a subtraction will increase this immediately (for

Section

2015 deaths) to \$5,430,000. This amount is annually adjusted for inflation. Conforming to the federal exclusion also adopts the federal “portability” rules (the “deceased spouse unused exclusion amount”). Under the portability rules, if a federal tax return is filed when the first spouse dies, the surviving spouse “inherits” the amount of the exclusion amount that was unused by the first spouse. (Complicated rules apply when someone survives two or more spouses.) Portability reduces the penalty for a failure to split a married couple’s estate into separate ownership for each spouse and provide for trust arrangements (A and B or marital and family trusts) to avoid “wasting” the exclusion amount on the first spouse’s death.

Section 4 repeals the qualified small business property and qualified farm property provisions. These subtractions, enacted in 2011, allow a subtraction for the qualifying types of property up to an amount for both that when added to the Minnesota zero bracket amount equals a maximum of \$5 million. (The recipient heirs must also agree to use the qualifying property as farmland or in the small business for three years after the decedent’s death for the subtraction to remain valid and to avoid a recapture tax.) Because adopting the federal exclusion amount (\$5.43 million) is larger than \$5 million maximum, the bill repeals these subtractions.

Effective date: Retroactive to decedents dying after December 31, 2014

- 3 **Tax rate schedule.** Eliminates the series of rates schedules that phase-in the increase of the zero bracket amount to \$2 million for 2018 deaths and repeals the 10-percent and 13-percent tax rate brackets to offset some of the reduced tax resulting from adoption of the federal exclusion amount.

Effective date: Retroactive to decedents dying after December 31, 2014

- 4 **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

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