

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 26, 2005

TO: Honorable Jim Keffer, Chair, House Committee on Ways & Means

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: HB2113 by Merritt (Relating to the repeal of the state inheritance tax.), **As Introduced**

No fiscal implication to the State is anticipated until federal law repealing the federal estate tax sunsets on January 1, 2011.

Texas' inheritance tax is a "pick-up" tax where the amount the state collects is equal to the state tax credit allowed under the federal estate tax. Current Texas law automatically conforms to the federal law each time the federal law changes. Since the federal and state laws are automatically connected, the taxpayer's total tax liability remains the same, but the revenue is split between the federal government and the state. Taxes are due nine months after the date of death.

Current federal law phased out the state tax credit, which reduced the amount the state collects. For deaths occurring after December 31, 2004, the state will not collect any revenue until the current federal law expires on January 1, 2011.

At that time, the federal law will revert to the law in effect on May 26, 2001, which would allow the state to share the revenue with the federal government again. If the Texas inheritance tax is repealed and the current federal law expires, Texas would not collect revenue on deaths occurring on or after January 1, 2011. Under these circumstances, this bill would result in a General Revenue Fund loss of about \$325 million each year beginning in fiscal 2012. However, if the repeal of the federal estate tax is made permanent, there would be no fiscal implications after 2010.

The estates of individuals who died before the effective date of the bill would be subject to the law in effect before repeal.

The bill would take effect immediately upon enactment, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2005.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, SD, WP, SJS