



Estimating the Effect of Federal Estate Tax Changes on Michigan Revenues

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The Michigan Estate Tax

- Michigan is one of 33 states which relies solely on a “pick-up” style tax on estates or inheritances
- State receives different information than if it levied a “combination tax”
- Automatically conforms to changes on the Federal level

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Data Available to Estimate the Impact of Federal Estate Tax Changes

- IRS Information from Federal/State Data Sharing
- IRA/SOI Information
 - High level information by State
 - Line item information for all states
- Data from Michigan Estate Tax Form
 - State Death Tax Credit reported on Federal return
 - Form type (different forms for Michigan-only estates and multi-state estates)

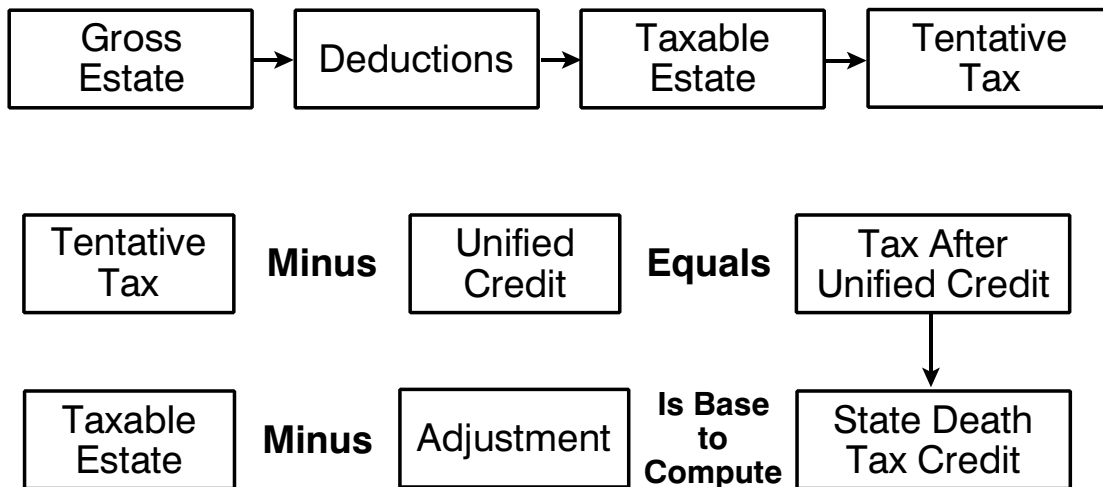
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Major Features of Federal Estate Tax Changes

- Rate Changes
- Elimination of Large Estate “Surtax”
- Increase Unified Credit
- Reduce Allowable State Death Tax Credit
- Other Changes

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How Federal Tax Changes Affect “Pick-up” Tax Revenues



****The State Death Tax Credit May Not Exceed the Tax After Unified Credit****

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Requirements to Estimate State Impact

- Calculate the Impact of Rate Changes on Tentative Tax
- Compute the Impact of Unified Credit Changes
- Account for “Clipping” Created when Computing the State Death Tax Credit
- Apply Statutory Reduction in Allowable State Death Tax Credit
- Put Calendar Year Impacts in Correct Fiscal Year(s)

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How SFA Estimated Tax Issues

- Used SOI data to produce “typical” estates within each range of estate sizes
- Calculated tentative tax, tentative tax after unified credit and State death tax credit for each estate under old and new law
 - Must remember TRA97 still phasing in changes
- Percent reduction in liability represents calendar year impact

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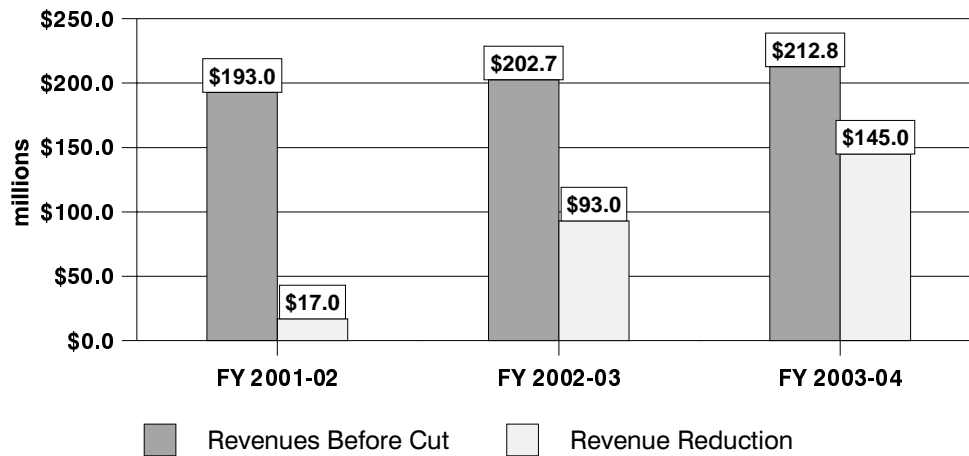
How SFA Estimated: Fiscal Year Issues

- Returns due nine months after date of death
- Changes take effect beginning each calendar year
- Must find what proportion of returns filed during calendar year are filed in each fiscal year
 - For Michigan, 94.5% of all returns are filed in the 9th month after death

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Results for Michigan

- Changes which impact the Tax After Unified Credit account for more than 50% of the impact experienced by state (51% in CY 2002 to 58% in CY 2004)
- 22.3% of CY 2002 Effect Experienced in FY 2001-02



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Addendum: Estate Tax Model

- Includes all returns since “pick-up” tax was established in 1992
- Uses computation algorithm that estimates Taxable Estate based on year of death
- Recomputes returns over multi-year horizon for base case and alternate case
- Allows changes in rates, brackets, credits
- Controls whether items such as the unified credit and State Death Tax Credit are deductions or credits
- Controls what law used to compute credits/deduction
- Creates weighted (with user defined weights) and unweighted results

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