

Department of Revenue Fiscal Note

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| Bill Number: 6581 SB | Title: Estate tax rate structure | Agency: 140-Department of Revenue |
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

| Account | FY 2020 | FY 2021 | 2019-21 | 2021-23 | 2023-25 |
|---|---------|-----------|-----------|------------|------------|
| Education Legacy Trust Account-State 01 - Taxes 55 - Inheritance Tax | | 4,000,000 | 4,000,000 | 28,100,000 | 34,400,000 |
| Total \$ | | 4,000,000 | 4,000,000 | 28,100,000 | 34,400,000 |

Estimated Expenditures from:

| Account | FY 2020 | FY 2021 | 2019-21 | 2021-23 | 2023-25 |
|----------------------|---------|---------|---------|---------|---------|
| FTE Staff Years | | 0.1 | 0.0 | | |
| GF-STATE-State 001-1 | 44,000 | 6,800 | 50,800 | | |
| Total \$ | 44,000 | 6,800 | 50,800 | | |

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

| | | |
|-------------------------------|-----------------------|------------------|
| Legislative Contact: | Phone: | Date: 01/29/2020 |
| Agency Preparation: Kim Davis | Phone: 360-534-1508 | Date: 02/09/2020 |
| Agency Approval: Don Gutmann | Phone: 360-534-1510 | Date: 02/09/2020 |
| OFM Review: Ramona Nabors | Phone: (360) 902-0547 | Date: 02/12/2020 |

Request # 6581-1-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

CURRENT LAW:

The estate tax is a tax on the right to transfer property at the time of death. A Washington decedent or a non-resident decedent who owns property in Washington State may owe estate tax depending on the value of their estate.

For deaths in 2020, the applicable exclusion amount is \$2,193,000. An estate tax return is not required to be filed unless the gross estate is equal to or greater than the applicable exclusion amount.

The Washington taxable estate is the amount after all allowable deductions, including the applicable exclusion amount. The tax rate that is applied ranges between 10 to 20 percent, depending upon the Washington taxable estate.

PROPOSED LAW:

For estates of decedents dying on or after July 1, 2020:

- The applicable exclusion amount is increased to \$2.5 million.

- The estate tax rates are increased as follows:

| Taxable Estate | Current Rate | New Rate |
|------------------------------|--------------|----------|
| \$0 - \$1 million | 10% | 10.0% |
| \$1 - \$2 million | 14% | 14.0% |
| \$2 - \$3 million | 15% | 16.0% |
| \$3 - \$4 million | 16% | 18.0% |
| \$4 - \$6 million | 18% | 22.0% |
| \$6 - \$7 million | 19% | 24.0% |
| \$7 - \$9 million | 19.5% | 26.0% |
| \$9 - \$12.5 million | 20% | 28.0% |
| \$12.5 - \$22.5 million | 20% | 29.0% |
| \$22.5 - \$100 million | 20% | 30.0% |
| \$100 million to \$1 billion | 20% | 35.0% |
| >\$1 billion | 20% | 40.0% |

By November 15, 2020, and by each November 15th thereafter, the Department of Revenue (Department) must estimate the increase in revenues deposited in the Education Legacy account for the current biennium and the next two biennia resulting from the changes made in this bill. The Department must notify the Office of Financial Management and the fiscal committees of the Legislature of the estimate increases.

The annual revenue increase must be used as follows:

- The first \$5 million must be used to fund programs that provide temporary housing for the homeless,
- The next \$10 million must be used to fund the child care career and wage ladder under RCW 43.216.675, and
- The remainder must be used to fund youth health care access and affordability.

EFFECTIVE DATE:

This bill takes effect on July 1, 2020.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS

- The increased exclusion amount and higher estate tax rates apply to deaths occurring on or after July 1, 2020.
- Exclusion amount will not increase since the US Bureau of Labor and Statistics (USBLS) no longer calculates the consumer price index for the Seattle-Tacoma-Bremerton metropolitan area.
- All payments are made timely at the 9-month due date.
- The first payments are due April 1, 2021, which results in three months of impact in Fiscal Year 2021.
- While the size of estates varies greatly from year to year, the estate tax data for deaths in Calendar Year 2017 includes:
 - 282 estates with a taxable value of zero
 - 865 estates with a taxable value of \$0 - \$1 million
 - 91 estates with a taxable value of \$1 - \$2 million
 - 52 estates with a taxable value of \$2 - \$3 million
 - 33 estates with a taxable value of \$3 - \$4 million
 - 25 estates with a taxable value of \$4 - \$6 million
 - 5 estates with a taxable value of \$6 - \$7 million
 - 12 estates with a taxable value of \$7 - \$9 million
 - 12 estates with a taxable value of \$9 - \$12.5 million
 - 4 estates with a taxable value of \$12.5 - \$22.5 million
 - 7 estates with a taxable value of \$22.5 - \$100 million
 - 0 estates with a taxable value of \$100 million to \$1 billion
 - 0 estate with a taxable value of \$1 billion or more

DATA SOURCES

- Department of Revenue Estate Tax data
- Estate Tax Forecast Model (November 2019)

REVENUE ESTIMATES

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

| | |
|-----------|-----------|
| FY 2020 - | \$ 0 |
| FY 2021 - | \$ 4,000 |
| FY 2022 - | \$ 12,000 |
| FY 2023 - | \$ 16,100 |
| FY 2024 - | \$ 16,700 |
| FY 2025 - | \$ 17,700 |

Local Government, if applicable (cash basis, \$000): None

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

ASSUMPTIONS:

This legislation will affect 1,200 estates filing returns each fiscal year.

FIRST YEAR COSTS:

The Department of Revenue (Department) will not incur any costs in Fiscal Year 2020.

The Department will incur total costs of \$44,000 in Fiscal Year 2020. These costs include:

- Object Costs - \$44,000.
- Contract computer system programming to revise the estate tax rate structure.

SECOND YEAR COSTS:

The Department will incur total costs of \$6,800 in Fiscal Year 2021. These costs include:

- Labor Costs - Time and effort equates to 0.08 FTE.
- Amend two administrative rules.

ONGOING COSTS:

There are no ongoing costs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

| | FY 2020 | FY 2021 | 2019-21 | 2021-23 | 2023-25 |
|----------------------------------|-----------------|----------------|-----------------|---------|---------|
| FTE Staff Years | | 0.1 | 0.0 | | |
| A-Salaries and Wages | | 4,400 | 4,400 | | |
| B-Employee Benefits | | 1,300 | 1,300 | | |
| C-Professional Service Contracts | 44,000 | | 44,000 | | |
| E-Goods and Other Services | | 700 | 700 | | |
| J-Capital Outlays | | 400 | 400 | | |
| Total \$ | \$44,000 | \$6,800 | \$50,800 | | |

III. B - Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

| Job Classification | Salary | FY 2020 | FY 2021 | 2019-21 | 2021-23 | 2023-25 |
|--------------------|---------|---------|---------|---------|---------|---------|
| EMS BAND 4 | 119,061 | | 0.0 | 0.0 | | |
| MGMT ANALYST3 | 59,436 | | 0.0 | 0.0 | | |
| TAX POLICY SP 2 | 70,632 | | 0.0 | 0.0 | | |
| TAX POLICY SP 3 | 79,944 | | 0.0 | 0.0 | | |
| TAX POLICY SP 4 | 86,064 | | 0.0 | 0.0 | | |
| WMS BAND 3 | 101,257 | | 0.0 | 0.0 | | |
| Total FTEs | | | 0.1 | 0.1 | | |

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

NONE

None.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the Department will use the expedited rule-making process to amend WAC 458-57-105, titled: "Nature of estate tax, definitions; Valuation of property" and WAC 458-57-115, titled: "Valuation of property, property subject to estate tax, and how to calculate the tax". Persons affected by this rule-making would include estates that are subject to the increase in Washington state estate tax rates.