

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE**

BILL NUMBER: SB 1239 (Third Edition)

SHORT TITLE: Exempt Family Farms/Family Businesses

FISCAL IMPACT					
	Yes (x)	No ()	No Estimate Available ()		
	(\$ Million)				
	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
REVENUES					
General Fund*	-	-1.5	-2.0	-2.0	-2.0
PRINCIPAL DEPARTMENT AFFECTED: The inheritance tax is collected by the Department of Revenue.					
EFFECTIVE DATE: Applies to estate of decedents dying on or after January 1, 1999.					

BILL SUMMARY: The 1997 Tax Relief Act enacted by Congress allows a maximum \$1.3 million federal estate tax exclusion for certain family-owned business interests. This exemption incorporates the regular estate tax exemption so that currently the impact of this deduction is a maximum of \$675,000. As the regular federal exemption rises to \$1 million during the next 8 years, the special exclusion for business interests will decline to \$300,000.

The proposed committee substitute allows a full North Carolina inheritance tax deduction for family-owned business interests that qualify for the federal exemption.

ASSUMPTIONS AND METHODOLOGY: This estimate was based on estate tax information from the IRS, discussions with the Department of Revenue, and a review of a statistical tabulation of types of property listed on federal estate tax returns filed in 1996. The fiscal impact is affected by the following factors:

- (1) The current inheritance tax allows a full exemption for property passing to the surviving spouse and an effective exemption of at least \$600,000 for Class A beneficiaries (essentially lineal ancestors and lineal descendants). The current exemption is even greater if the property is divided among more than one Class A beneficiary
- (2) Families with a large estate have an incentive to use legal specialists and other estate

planners to minimize their tax liability

(3) This bill is tied to Federal eligibility requirements.

(4) The application of the "pick up tax" , which is the N. C. Estate Tax that uses up the federal estate credit for state death taxes.

Estates have 9 months after a death to pay the tax. Thus, the January 1, 1999 effective date means that there will be no budgetary impact for the 98-99 fiscal year and only 3 quarters for 99-00.

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