



SF 39 – Inheritance Tax Phase-Out (LSB1660XS)

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Fiscal Note Version – New

Description

[Senate File 39](#) phases down and repeals the Iowa inheritance tax and the qualified use inheritance tax. The phase-down begins with deaths occurring on or after July 1, 2019, with the first of nine annual tax rate reductions. The inheritance tax and the qualified use inheritance tax are repealed effective July 1, 2028.

Background

Persons inheriting all or a portion of an estate from an Iowa descendant may owe Iowa inheritance tax on the inherited value. Any inheritance tax owed is due and payable on or before the last day of the ninth month following the death.

The following is a partial list of situations in which an inheritance would not be taxed:

- If the net value of the entire estate is \$25,000 or less.
- If the inheritor is sufficiently related to the descendant. Relationships that are exempt from the Iowa inheritance tax include:
 - A surviving spouse,
 - All lineal descendants (children and grandchildren), including adopted children and stepchildren, or
 - All lineal ascendants (parents and grandparents).
- If the property passes to a qualified religious, educational, or charitable entity.
- If the property passes to a qualified hospital, public library, public art gallery, or municipal corporation.

The tax rates applicable to inheritances that are subject to the Iowa inheritance tax vary. The listed situations and the applicable tax rate range include:

- Brothers and sisters of the deceased, or a son-in-law or daughter-in-law, 5.0% to 10.0%.
- Unrelated individuals, 10.0% to 15.0%.
- A business or other for-profit organization, 20.0%.
- Other organizations not otherwise exempt from the tax, 10.0%.

The Iowa qualified use inheritance tax applies to certain property that was benefiting from a reduced valuation at the time of the owner's death and was taxed through the regular Iowa inheritance tax at that lower value. The reduced valuation provisions are available to certain farm and other business property under federal Internal Revenue Code provisions. The qualified use inheritance tax may apply if the property is no longer subject to the use qualification.

Assumptions

- For FY 2019 and FY 2020, the assumed amount of revenue the State will receive under current law is equal to the December 2018 Revenue Estimating Conference (REC) gross inheritance tax estimates for those years. The FY 2019 and FY 2020 REC estimates are

each reduced \$2.5 million to adjust for the average annual amount of gross inheritance tax that is refunded.

- For years beyond FY 2020, inheritance tax revenue is assumed to increase 2.5% per year under current law.
- In most instances, the tax return and payment are due nine months after the death date. Therefore, the revenue reduction that results from the tax phase-out is delayed nine months.

Fiscal Impact

The projected annual reduction in net General Fund revenue associated with a phase-down and repeal of the Iowa inheritance tax and the qualified use inheritance tax is provided in the Projected Fiscal Year Revenue Reduction columns of the following table. The revenue reduction will continue beyond FY 2031.

Iowa Inheritance Tax Phase-out, General Fund Revenue Impact						
In Millions						
<u>Fiscal Year</u>	<u>Projected Current-Law Estimate</u>	<u>Projected Fiscal Year Revenue Reduction</u>		<u>Fiscal Year</u>	<u>Projected Current-Law Estimate</u>	<u>Projected Fiscal Year Revenue Reduction</u>
FY 2019	\$ 83.1	\$ 0.0		FY 2026	\$ 98.3	\$ -57.1
FY 2020	84.8	-3.0		FY 2027	100.8	-67.7
FY 2021	86.9	-12.0		FY 2028	103.3	-78.8
FY 2022	89.1	-21.3		FY 2029	105.9	-90.5
FY 2023	91.3	-31.2		FY 2030	108.5	-101.0
FY 2024	93.6	-40.5		FY 2031	111.2	-111.2
FY 2025	95.9	-50.0				

Sources

Revenue Estimating Conference estimates
Iowa Department of Revenue

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
