

FISCAL NOTE TO
ASSEMBLY, No. 1016

STATE OF NEW JERSEY

DATED: OCTOBER 18, 1996

Assembly Bill No.1016 of 1996 repeals the New Jersey inheritance tax.

The Division of Taxation estimates that the repeal of the inheritance tax under this bill and the consequential increase in the linked New Jersey estate tax would result in the net loss of between \$168 million and \$189 million in FY 1997, and between \$176 million and \$198 million in FY 1998.

New Jersey imposes an inheritance tax on certain decedent transfers of real and personal property. New Jersey also imposes an estate tax that takes advantage of a credit allowed under the federal estate tax for estate and decedent transfer taxes paid to states. If New Jersey inheritance taxes and taxes owed to other states are less than the maximum federal credit allowed, a tax is imposed equal to the remaining federal credit. This has the effect of transferring federal taxes to New Jersey without increasing a taxpayer's total liability.

The federal credit for state estate taxes only applies to estates of \$700,000 or more. Repeal of the inheritance tax will eliminate the regular New Jersey inheritance tax on these large estates, leaving more of the federal credit to be absorbed by the New Jersey estate tax and increasing the estate tax liability for these large estates. Therefore, the final revenue impact of this legislation is the loss of the inheritance tax collection offset, in part, by the increase in New Jersey estate tax liability of the large estates.

The Division of Taxation estimates that the total inheritance tax loss in FY 1997 will be \$210 million; however \$21 million to \$42 million will be collected in additional estate taxes. Therefore, the total revenue loss will be between \$168 million and \$189 million, depending on the number of large estates which meet the estate tax threshold. The FY 1998 loss estimate of between \$176 million and \$198 million is based upon a total inheritance tax loss of \$220 million and an estate tax increase of between \$22 million and \$44 million.

Precise data for estimating the losses resulting from this legislation are not available, however, the Office of Legislative Services (OLS) finds no reason to disagree with the analysis performed by the division. Based upon combined inheritance and estate tax revenues of roughly \$305 million in FY 1996, the division's estimates appear to be an appropriate order of magnitude for revenue losses due to the repeal of the inheritance tax.

This fiscal note has been prepared pursuant to P.L.1980, c.67.