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Fiscal Note

Fiscal Services Division

SF 110 – Inheritance Tax Elimination (LSB1785XS)
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Fiscal Note Version – New

Description

Senate File 110 repeals the State inheritance tax and the State qualified use inheritance tax. The repeal is effective July 1, 2021, and applies to deaths occurring on or after that date.

Background

Inheritances received by a spouse or lineal ascendants and descendants (children, grandchildren, parents, grandparents, etc.) are exempt from Iowa inheritance tax under current law. For inheritances not exempt, the tax rate varies by size of the inheritance and category of inheritor.

- If the net value of the entire estate is less than $25,000, the tax rate is 0.0%.
- For a brother, sister, son-in-law, or daughter-in-law, the rate is 5.0% to 10.0%.
- For an aunt, uncle, niece, nephew, foster child, cousin, brother-in-law, sister-in-law, and all other individual persons, the rate is 10.0% to 15.0%.
- For firms and for-profit corporations and organizations, the rate is 15.0%.
- For charitable, educational, or religious organizations organized under the laws of any other state or country, the rate is 10.0%.
- For bequests for religious services in excess of $500, the rate is 10.0%.
- For unknown heirs, the rate is 5.0%.
- For public libraries and art galleries, hospitals, humane societies, municipal corporations, or for the care of cemetery or burial lots, or bequests for religious services not to exceed $500, the rate is 0.0%.

The State qualified use inheritance tax may apply to certain property of the decedent that was used in farming or other trade or business.

Assumptions

- For FY 2021 and FY 2022, the assumed amount of revenue the State will receive under current law is equal to the December 2020 Revenue Estimating Conference gross inheritance tax estimates for those years.
- For years beyond FY 2022, inheritance tax revenue is projected to grow 3.5% per year under current law.
- Annual estimates of gross inheritance tax receipts are reduced $2.5 million to adjust for the average annual amount of gross inheritance tax that is refunded.
- In most instances, the tax return and payment are due nine months after the death date. Therefore, the revenue impact of the July 1, 2021, repeal is delayed nine months.
- Future payments from deferred life estates and remainder interests, due from inheritances received prior to the repeal of the inheritance tax, are assumed to be minor and are therefore ignored in the fiscal impact calculation.

Fiscal Impact

The repeal of the State inheritance tax and the State qualified use inheritance tax is projected to reduce net General Fund revenue by $30.2 million in FY 2022 and $89.2 million in FY 2023. The revenue reduction is projected to grow by 3.5% per year after FY 2023.

Additional Potential Fiscal Impact

Existing Iowa law provides for a significant change to Iowa's individual income tax system once two General Fund revenue triggers are met. The first year that the triggers may be met is at the conclusion of FY 2022. Once implemented, this contingent income tax system is projected to reduce Iowa individual income tax by roughly $300.0 million per tax year. Since this Bill is projected to reduce General Fund revenue in FY 2022 and after, the Bill's changes will significantly reduce the possibility of achieving both revenue triggers; as a consequence, the Bill could result in delayed implementation of the income tax reduction.

Source

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.

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