

Multiple Agency Fiscal Note Summary

Bill Number: 1795 HB	Title: Estate tax
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Estimated Cash Receipts

Agency Name	2023-25			2025-27			2027-29		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Office of State Treasurer	In addition to the estimate above, there are additional indeterminate costs and/or savings. Please see individual fiscal note.								
Department of Revenue	0	33,100,000	33,100,000	0	59,300,000	59,300,000	0	41,300,000	41,300,000
Total \$	0	0	33,100,000	0	0	59,300,000	0	0	41,300,000

Estimated Operating Expenditures

Agency Name	2023-25				2025-27				2027-29			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Office of State Treasurer	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Revenue	1.8	382,000	382,000	382,000	1.2	228,200	228,200	228,200	1.0	198,400	198,400	198,400
Total \$	1.8	382,000	382,000	382,000	1.2	228,200	228,200	228,200	1.0	198,400	198,400	198,400

Estimated Capital Budget Expenditures

Agency Name	2023-25			2025-27			2027-29		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Office of State Treasurer	.0	0	0	.0	0	0	.0	0	0
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

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Prepared by: Cheri Keller, OFM	Phone: (360) 584-2207	Date Published: Revised 2/14/2023
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Individual State Agency Fiscal Note

Revised

Bill Number: 1795 HB	Title: Estate tax	Agency: 090-Office of State Treasurer
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

ACCOUNT	FY 2024	FY 2025	2023-25	2025-27	2027-29
Education Legacy Trust Account-State 08A-1	(5,500,000)	(27,600,000)	(33,100,000)	(59,300,000)	(41,300,000)
Progressive Policy Account-State New-1	5,500,000	27,600,000	33,100,000	59,300,000	41,300,000
Total \$					

In addition to the estimates above, there are additional indeterminate costs and/or savings. Please see discussion.

Estimated Operating Expenditures from:

NONE

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: Tracey Taylor	Phone: 360-786-7152	Date: 02/09/2023
Agency Preparation: Dan Mason	Phone: (360) 902-8990	Date: 02/14/2023
Agency Approval: Dan Mason	Phone: (360) 902-8990	Date: 02/14/2023
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/14/2023

Part II: Narrative Explanation

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

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

HB 1795 creates the progressive policy account, coupled with the general fund as the recipient of the earnings from investments under RCW 43.84.092(4).

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

The section 6(2)(b) transfers reflected in this fiscal note were provided by the department of revenue.

Projected cash flows are currently unavailable; therefore, estimated earnings from investments are indeterminable.

There may be an impact on the debt service limitation calculation. Changes to the earnings credited to the general fund impacts, by an equal amount, general state revenues.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Department of Revenue Fiscal Note

Bill Number: 1795 HB	Title: Estate tax	Agency: 140-Department of Revenue
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
Education Legacy Trust Account-State 01 - Taxes 55 - Inheritance Tax	5,500,000	27,600,000	33,100,000	59,300,000	41,300,000
Total \$	5,500,000	27,600,000	33,100,000	59,300,000	41,300,000

Estimated Expenditures from:

Account	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	2.0	1.5	1.8	1.2	1.0
GF-STATE-State 001-1	232,900	149,100	382,000	228,200	198,400
Total \$	232,900	149,100	382,000	228,200	198,400

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: Tracey Taylor	Phone: (603) 60-786-7152	Date: 02/09/2023
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Agency Approval: Valerie Torres	Phone: (603) 60-534-1521	Date: 02/13/2023
OFM Review: Cheri Keller	Phone: (603) 60-584-2207	Date: 02/14/2023

Request # 1795-1-1

Part II: Narrative Explanation

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

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

CURRENT LAW:

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

An applicable exclusion amount and methods for adjusting it are set in statute. An estate tax return is not required to be filed unless the gross estate is equal to or greater than the annual applicable exclusion amount. Even though allowable deductions from the gross estate may result in no tax due, an estate tax return must still be filed.

The annual adjustments to the applicable exclusion amount is determined by the Department of Revenue (department) using the consumer price index (CPI) for the Seattle-Tacoma-Bremerton metropolitan area. The adjustment is determined by multiplying \$2,000,000 by one plus the percentage by which the most recent October CPI exceeds the CPI for October 2012.

As of January 1, 2018, the US Bureau of Labor and Statistics (USBLS) no longer calculates the CPI for the Seattle-Tacoma-Bremerton metropolitan area. Instead, they created the Seattle-Tacoma-Bellevue Core Based Statistical Area for the Puget Sound region. This results in no increase in the applicable exclusion amount after 2018. For deaths in 2019 and forward, the applicable exclusion amount is \$2,193,000.

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

Internal Revenue Code Section 2055 allows for a deduction from the value of the decedent's gross estate when the assets are transferred to one or more qualified charitable organizations.

Washington law allows the value of a qualified family-owned business interest (QFOBI) may be deducted from the taxable value of an estate as long as certain conditions are met:

- The QFOBI deduction is limited to the lesser value of the QFOBI or \$2.5 million.
- The QFOBI exceeds 50% of the decedent's Washington taxable estate.
- The QFOBI does not exceed \$6 million.
- An heir to the QFOBI must continue the trade or business for three years from the date of death.

All receipts from the estate tax are deposited into the Education Legacy Trust Account.

PROPOSAL:

For estates of decedents dying on or after August 1, 2023, but before January 1, 2025, the applicable exclusion amount is increased to \$2,659,000.

For estates of decedents dying in calendar year 2025 and each calendar year thereafter:

- The October CPI published by the USBLS for the Seattle area is used to annually adjust the estate tax exclusion amount.
- The adjustment is determined by multiplying \$2,659,000 by the sum of one plus the percentage by which the most recent October CPI exceeds the CPI for October 2023.

The estate tax rates are increased for estates over \$3 million as follows:

Taxable Estate	Current Rate	New Rate
\$0 to less than \$1 million	10%	10%
\$1 million to less than \$2 million	14%	14%
\$2 million to less than \$3 million	15%	15%
\$3 million to less than \$4 million	16%	18%
\$4 million to less than \$6 million	18%	22%
\$6 million to less than \$7 million	19%	24%
\$7 million to less than \$9 million	19.5%	26%
\$9 million to less than \$12.5 million	20%	28%
\$12.5 million to less than \$22.5 million	20%	29%
\$22.5 million to less than \$100 million	20%	30%
\$100 million to less than \$1 billion	20%	35%
At least \$1 billion	20%	40%

Amounts transferred to family foundations qualified as deductions under IRC Section 2055 are disallowed as a deduction in computing the amount of tax due as follows:

- 25% of the first \$100 million.
- 75% of any amount in excess of \$100 million.

The QFOBI deduction for interests in a newspaper business is expanded as follows:

- The maximum allowable deduction is increased from \$2.5 million to \$5 million.
- The QFOBI does not have to exceed 50% of the decedent's Washington taxable estate.
- The QFOBI may exceed \$6 million.

An estate tax return is not required to be filed if the decedent's estate doesn't owe any estate tax and the decedent's gross estate is less than the applicable exclusion amount once the qualifying family residence value has been removed.

By November 1st and May 1st of each year, the department must calculate the increased estate tax collections due to the changes in this proposal, as compared to the collections had this proposal not been enacted. The department must notify the state treasurer by December 1st and June 1st of the incremental amount, which will be deposited into the new Progressive Policy Account created in this proposal.

EFFECTIVE DATE:

This bill takes effect on August 1, 2023.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

- This proposal applies to deaths occurring on or after August 1, 2023.
- All payments are made timely at the 9-month due date.
- The first payments are due May 1, 2024, which results in two months of impact in fiscal year 2024.
- Transfers from Education Legacy to the new Progressive Policy account will be shown on the Treasurer's fiscal note.
- Transfers to the Progressive Policy account will cease in fiscal year 2035 due to the negative revenue impact from this legislation.
- Transfers shown on the Treasurer's fiscal note assume the bill is amended to allow an alternative calculation method using data available to the department.

Using the forecasted Seattle Consumer Price Index, the estate tax exclusion amount is increased as follows:

2024 - \$2,659,000
2025 - \$2,740,000
2026 - \$2,798,000
2027 - \$2,849,000
2028 - \$2,901,000
2029 - \$2,952,000

REVENUE PARTIALLY INDETERMINATE:

The amendment to the QFOBI deduction for newspaper businesses reduces estate tax revenues; however, the timing and amount of any impact is indeterminate. For any given year, it is unlikely that an owner of a family-owned newspaper business will become subject to estate tax. The size of the reduction to the revenues may vary largely based on the value of the assets of the company.

DATA SOURCES:

- Department of Revenue, estate tax data
- Estate tax model, November 2022 forecast
- Economic and Revenue Forecast Council, November 2022 forecast
- Federal estate tax data

REVENUE ESTIMATES:

This legislation increases collections into the Education Legacy Trust account by \$5.5 million in fiscal year 2024, and by \$27.6 million in fiscal year 2025, the first full year of impact.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2024 - \$ 5,500
FY 2025 - \$ 27,600
FY 2026 - \$ 31,800
FY 2027 - \$ 27,500
FY 2028 - \$ 23,000
FY 2029 - \$ 18,300

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

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

FIRST YEAR COSTS:

The department will incur total costs of \$232,900 in fiscal year 2024. These costs include:

Labor Costs – Time and effort equate to 2.01 FTEs.

- Set up, program, and test system changes.
- Update annual forms.
- Assist taxpayers with reporting questions and respond to inquiries.
- Review accounts and returns in error.
- Amend four administrative rules.

Object Costs - \$4,400.

- Contract computer system programming.

SECOND YEAR COSTS:

The department will incur total costs of \$149,100 in fiscal year 2025. These costs include:

Labor Costs – Time and effort equate to 1.5 FTEs.

- Update annual forms.
- Assist taxpayers with reporting questions and respond to inquiries.
- Review accounts and returns in error.

ONGOING COSTS:

Ongoing costs for the 2025-27 biennium equal \$228,200 and include similar activities described in the second-year costs. Time and effort equate to 1.3 FTEs in fiscal year 2026 and 1.0 FTEs in fiscal year 2027.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	2.0	1.5	1.8	1.2	1.0
A-Salaries and Wages	130,600	92,400	223,000	141,700	123,200
B-Employee Benefits	43,100	30,500	73,600	46,700	40,600
C-Professional Service Contracts	4,400		4,400		
E-Goods and Other Services	32,300	16,200	48,500	24,600	21,400
G-Travel	6,000	5,300	11,300	8,100	7,000
J-Capital Outlays	16,500	4,700	21,200	7,100	6,200
Total \$	\$232,900	\$149,100	\$382,000	\$228,200	\$198,400

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

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
EMS BAND 4	126,619	0.0		0.0		
EMS BAND 5	147,919	0.0		0.0		
EXCISE TAX EX 3	61,632	1.7	1.5	1.6	1.2	1.0
IT SYS ADM-JOURNEY	92,844	0.1		0.1		
MGMT ANALYST4	73,260	0.0		0.0		
TAX POLICY SP 2	75,120	0.0		0.0		
TAX POLICY SP 3	85,020	0.1		0.1		
TAX POLICY SP 4	91,524	0.0		0.0		
WMS BAND 3	107,685	0.0		0.0		
Total FTEs		2.0	1.5	1.8	1.2	1.0

III. C - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Provisions of the bill 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 process to amend WAC 458-57-105, titled: "Nature of real estate, definitions," WAC 458-57-135, titled: "Washington estate tax return to be filed - Penalty for late filing - Interest on late payments - Waiver of cancellation of penalty - Application of payment," and WAC 458-57-175, titled: "Qualified family-owned business interests." The department will use the standard process to amend WAC 458-57-115, titled: "Valuation of property, property subject to estate tax, and how to calculate the tax." Persons affected by this rulemaking would include persons affected by the changes in exclusions and estates affected by the increased rate change.