Briefings

May 2001

Florida TaxWatch

Accelerated Estate Tax Changes Pose Threat to Florida: First Year Impact $460 Million Additional on Florida

Florida's estate tax, as provided by the Florida Constitution, is a "pick-up" tax which works as if the state had enacted an estate tax with rates (and base) equal to the credit scheduled specified in Federal law. Florida and 34 other states have no other estate tax than the share they get through their "piggy-backing" onto the federal tax. There is no additional net burden to the taxpayer from the state tax. In its absence, the entire sum of the estate tax is paid to the federal treasury. Taxpayers receive a credit on their federal estate tax and give that amount to the state. If the federal credit is eliminated, so too is the Florida estate tax.

The federal tax cut being debated in the U.S. Senate includes a 10-year phasing out of the estate tax that would require Florida and the other states to give up their estate taxes first. At first blush it may appear well and good to eliminate the tax. However, to do so in an accelerated fashion poses serious problems for Florida's fiscal system, health and well-being. Florida current fiscal year collections are estimated at $810 million and are expected to grow to $930 million by FY 2002-2003. All proceeds are deposited in the General Revenue Fund, for budget purposes including education, social services and criminal justice programs.

For 75 years the federal and state governments have cooperated in this shared and fair partnership in administering federal estate taxation and tax credits. That will end rather abruptly if a proposal by the U.S. Senate Finance and Tax Committee succeeds. The Committee would accelerate the elimination of federal estate tax credits to Florida and other state governments, requiring them to bear a disproportionate and draconian share of the elimination burden.

President Bush called for elimination of the estate tax during his campaign, and it comes as no surprise that the federal estate tax eventually will be eliminated. Both the President's plan and H.R. 1836, passed by the U.S. House of Representatives, call for a proportional plan to do the job. The House plan would have a $5 million dollar impact on Florida in 2003 and totally eliminate the tax and related credits by 2011. The Senate plan, by contrast, would result in an abrupt $460 million hit for Florida in 2003 and $1.175 billion dollars by 2006, the last year of the proposed phase-out.

Senate and House Repeal Plan Revenue Impacts (millions) on Florida

Fiscal Years Ending	2003	2004	2005	2006	2007	2008	2009	2010	2011
HOUSE	(5)	(62)	(115)	(165)	(2 50)	(370)	(580)	(1115)	(1475)
SENATE	(465)	(550)	(610)	(1175)	(1230)	(1290)	(1350)	(1400)	(1475)

The larger taxpayer savings from the Senate plan, as shown above, mainly reflect a proportionately larger revenue loss shifted to the states through the Senate's relatively quick repeal of the federal credit for state estate taxes.

The House plan, by comparison, repeals the credit at a rate proportional to the repeal of the federal estate tax rates whereas the Senate substantially accelerates the phase-out of the credit. Thus, under the Senate plan, Florida's death tax credit is reduced by 50 percent in FY 2003 and eliminated by 2006.

The House plan actually generates cumulative federal tax savings that are 27 percent higher than the Senate plan generates over the period. The $465 million in 2003 reductions that would occur under the Senate plan amount to approximately 1 percent of the total state budget and 2.1 percent of the General Fund budget; the federal revenue reductions proposed by the Senate Finance Committee amount to less than 0.3 percent of the total federal budget. Whereas the states would cease to receive the credit by 2006, the federal government would continue collecting the tax until 2011.

The House plan clearly amounts to a more equitable sharing of the tax cuts between state and federal budgets and is less onerous than the Senate proposal to Florida's fiscal system, health and well-being. Govern Jeb Bush, Florida's U.S. Senators, Florida Senate Appropriations Chair, Jim Horne and other state legislative leaders concur in opposing the Senate plan. In a letter to U.S. Senate leadership, Governor Bush and 33 other governors objected to the imposing of disproportionate impacts on state revenue systems, citing the significant negative impact that such an abrupt change would have on state revenues.

As this *Briefing* goes to press, numerous amendments to slow down the phasing out of the estate tax have failed as have all attempts in the Senate to amend the tax cut plan. It remains to be seen whether fairness to the states will prevail in the case of the estate tax.

This report was researched and written by Keith G. Baker, Ph.D.,
Senior Vice President and Chief Operating Officer.
T. O'Neal Douglas, Chairman; Dominic M. Calabro, President and Publisher

---

To obtain more information regarding this report

E-Mail:

.

Return to the TaxWatch main page.