MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M

ROLL NUMBER

DESCRIPTION

3043

LaCosta Rickford 10/6/03
Operator's Signature Date

2003 HOUSE FINANCE AND TAXATION

HCR 3043

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. **HCR 3043**

House Finance and Taxation Committee

☐ Conference Committee

Hearing Date **February 10, 2003**

Tape Number	Side A	Side B	Meter #
1	X		1.2
Committee Clerk Signature	Janice Stein		

Minutes:

REP. WESLEY BELTER, CHAIRMAN Called the hearing to order.

REP. AL CARLSON, FARGO Introduced the resolution. This resolution is urging Congress to eliminate the estate tax. The reason for introducing this resolution is because I am a product of reaganomics. In 1977, I quit teaching, and went into the construction and real estate business, and interest rates were eight percent. Within six months after leaving, the interest rates were nineteen percent. It was a little hard to sell houses and a little hard to build houses. The city of Fargo had four building permits in 1979. When Ronald Reagan came in with his philosophy of supply side economics, he believed money is best spent if left in the pocket of the taxpayer, and by doing that they would generate more economic activity for the nation. The point was, it worked. We can argue about lots of things that happened during the Reagan years, but as a businessman, the more money you leave in a businessman's pocket, the more jobs he will create and the more money he will spend in the economy, and the economy is going to grow. A couple of thing happened from that, and that is why this resolution is up as the estate tax. Because people grow their businesses, especially in North Dakota, with family farms, and the majority of our businesses being small businesses, the estate tax has really been devastating for small business. If the estate tax had been repealed in 1996, over the next nine years it has been estimated the United States economy would have averaged as much as $11 billion per year in extra output, and an average of 145,000 new jobs would have been created. I think there has been a general concensus, that the estate tax is not a fair tax. I think we should encourage Congress to finish what they started, instead of temporarily phasing it out, to get rid of it.

REP. WINRICH Referred to one of the whereas clauses, which talks about farmers and small business owners, not being passed on because of the estate tax, there is a limit below which the estate tax is not composed, do you know, what that is?

REP. CARLSON There was a six hundred thousand dollar limit before, but it has been raised.

REP. BELTER Stated it had been raised.

Someone commented from the side lines, stating it was one million dollars.

REP. WINRICH I believe there are proposals to raise it further.

REP. CARLSON Stated he was not aware of it going beyond that level. But I can tell you, in today's dollars, I used to think a million dollars was a lot of money, but it isn't too hard today to own a reasonable sized farm or to own one or two office buildings and be significantly beyond a million dollars. I am glad they raised it, and if they will raise it further, it doesn't take a lot of assets to reach that level any more.

SANDY CLARK, REPRESENTING THE NORTH DAKOTA FARM BUREAU Testified in support of both resolutions HCR 3043 and HCR 3044. She stated HCR 3043, the estate tax is a very important issue to their members. She stated they have worked a long time on the repeal of the estate tax.

REP. SCHMIDT Asked the question, in the state of North Dakota, whenever we propose to reduce property tax, we are always accused of shifting taxes to some other people, on this resolution, according to this, 11 billion dollars is shifted to somebody else, who will take up that 11 billion dollars?

REP. BELTER Answered the question, stating, he thought there could be some shifting, but the overall spending of the federal government is extremely out of control, and he thought a lot could be done at the federal level to reduce spending. There is not a need to completely shift all of the spending to another tax.

JOHN RISCH, REPRESENTING THE UNITED TRANSPORTATION UNION Testified in opposition of the bill. He stated the estate tax is the most fairest tax we have in the country today. It is fairest because it applies only to the very wealthy. It applies to less than two percent of all estates. Positive things about estate tax, it helps break up concentrated wealth and encourages charitable giving. I have read in a number of different places, that large chartiable trusts are concerned because as much as forty to fifty percent of all charitable giving in the United States, comes from estate and through estate planning. A lot of it comes from large estates wanting to avoid taxes, so they give the money to charity. Currently, the exemptions for estates is one million dollars for an individual and two million if they are married. Farms and small businesses have numerous other provisions that allow them to present much more than the one and two million dollars. Other planning devices allow much more money to escape state taxation. Under current federal law, the estate tax is scheduled to increase to 3.5 million dollars for an individual and 7 million dollars for a married couple by year 2009. That takes place in 99.7 % of all estates in the estate tax nation. Related to the Senate Budget Committee who estimated that the estate tax will cost the federal government one hundred billion dollars over the next decade to the year 2013. The highest number I saw was four hundred billion dollars. It gets much worse, the following decade, it is estimated that it will cost the US Treasury more than seven hundred billion dollars. It couldn't come at a worse time, because this coming decade and the following decade is when the baby boomers are set to retire and to draw social security and relying on medicare. That is a time when the federal government need not be running enormous debts but should be preparing for the enormous demands that these baby boomers, demanding medicare and social security trust funds. President Bush has proposed a four hundred billion dollar prescription drug benefit, which will also have to be funded from the US Treasury, add to that the Iraq war, which will cost anywhere from one hundred to two hundred fifty billion dollars, you can see the elimination of the estate tax is one more provision which will add to economic chaos and dramatic budget deficits in this country. He related to Senator Conrad's proposal regarding the estate tax to be raised to three million dollars. He also related to the North Dal a Farm Bureau who stated that farmers lost their farm because of estate tax. He said he has yet to read an article where someone actually did lose their farm because of estate tax.

REP. CLARK Do you know what the federal budget currently collects in tax on all kinds, whether it be personal or corporate income tax as a whole?

JOHN RISCH No

REP. CLARK Stated about ten years ago, he read that the federal budget was at about 1.2 trillion dollars, you mentioned that the estate tax cost about four hundred billion dollars over ten years, that is about forty billion per year, that must be about two percent of the federal budget, why isn't that two percent critical?

JOHN RISCH Four hundred billion dollars is an immense amount of money, the two percent of the federal budget is like, he stated there are all kinds of things taking place in the budget today, related to Amtrak, which he is personally involved in. He said the president's budget reduces Amtrak funding from 1.2 billion dollars to five hundred million dollars.

REP. KLEIN Related to the fairness issue, is this estate tax fair when it taxes the wealthy?

JOHN RISCH It is fair because it taxes people who can pay it. It is not an attack on the rich or wealthy. Related to Bill Gates Sr. who asked that they not repeal the estate tax.

BRENDA DISSETTE, EXECUTIVE DIRECTOR OF THE NORTH DAKOTA ASSOCIATION OF NON PROFIT ORGANIZATIONS Testified in opposition of the bill. She stated that estate tax creates funds for organizations throughout North Dakota. There are a lot of states decoupling from the estate tax. The American Farm Bureau Federation has acknowledged to the New York Times that they cannot say a single example of any farmer or small business that has lost their farms or business in order to pay estate taxes. She stated there would be less charitable giving if there wasn't an estate tax.

With no further testimony, the hearing was closed.

COMMITTEE ACTION

REP. WINRICH Gave a little history in public policy. He stated fortunes don't necessarily have to be passed onto heirs, and possibly, there is great danger in allowing that to happen. It can create a hereditary kind of aristocracy. As Mr. Risch pointed out, 98% of all of the estates,

✓ LR

escape taxes completely. It is only the absolute largest estates which are taxed under our current policy. I think it is good public policy.

REP. BELTER Responded, saying investment has to come from earned income. Before people can make investments in business, they pay tax on their earned income, then whatever is left after they pay tax is left for investments. Our current income tax policy is such, that we have a graduated income tax, so those who make more money, pay significantly higher rates of taxes. From that perspective, people have already paid tax before they make their investment, whether it is a small investor or large investor, they are reaping the benefits of the risk they took by making that investment. As we recently experienced, investments don't always reap a reward. It is much easier for the rich to evade taxes, they can higher the accountants and the attorneys to jump through the hoops, where our middle income people don't have that experience. Gave a background of his family farm and inheritance tax.

REP. KELSH Commented stating, the philosophy is, we are not necessarily soaking the rich, for the sake of soaking the rich, we live in the greatest country on earth, which has given us an economy and a system that allows anybody to become rich if they so choose, and I think, philosophically, those who benefit most from having the privilege of living in the United States, for a modern infrastructure, a strong military that keeps us free, have an obligation to pay for that right. Secondly, on the issue of interest rates, I think interest rates have a far greater impact on our economy then many of us realize and I think if enacted, these provisions would drive interest rates very high.

REP. CLARK Stated he would support the resolutions because he read where the top one percent were paying about forty percent of the federal budget. It certainly is to our benefit to keep them in the United States, instead of them declaring their citizenship in Bermuda just to avoid our taxes.

After considerable discussion,

REP. CLARK Made a motion for a **DO PASS**

REP. HEADLAND Second the motion. **MOTION CARRIED BY VOICE VOTE, WITH 4 NO VOTES.**

Date: 2-10-03
Roll Call Vote #: 1

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HCR 3043

House FINANCE & TAXATION Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Pass

Motion Made By Rep. Clark Seconded By Rep. Headland

Representatives	Yes	No	Representatives	Yes	No
BELTER, CHAIRMAN					
DROVDAL, VICE-CHAIR					
CLARK					
FROELICH					
GROSZ					
HEADLAND					
IVERSON			Voice		
KELSH			vote		
KLEIN					
NICHOLAS					
SCHMIDT					
WEILER					
WIKENHEISER					
WINRICH					

Total (Yes) 9 No Consent Calendar

Absent 1

Floor Assignment Rep.

If the vote is on an amendment, briefly indicate intent:

IR

REPORT OF STANDING COMMITTEE (410)
February 10, 2003 12:43 p.m.

Module No: HR-25-2104
Carrier: Belter
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HCR 3043: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO PASS (9 YEAS, 4 NAYS, 1 ABSENT AND NOT VOTING). HCR 3043 was placed on the Eleventh order on the calendar.

2003 SENATE FINANCE AND TAXATION

HCR 3043

2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HCR3043

Senate Finance and Taxation Committee

☐ Conference Committee

Hearing Date March 4, 2003

Tape Number	Side A	Side B	Meter #
1	X		70-1295
1		X	2070-3490
Committee Clerk Signature			

Minutes:

Senator Urlacher opened the hearing on HCR3043. A quorum is present. This resolution urges Congress to eliminate the estate tax.

Representative Al Carlson (mtr #90) - Introduced the resolution and explained the intent of eliminating the estate tax and the effect it would have on the economy.

Senator Nichols (mtr #249) - What will be the exemption level for the estate tax next year?

Representative Carlson - Not sure if the exemption level will increase.

Senator Nichols (mtr #290) - Does believe that the exemption level is going to increase to 1.5 million dollars next year.

Representative Carlson (mtr #307) - Observation on building his estate and the possible estate tax at his death.

Senator Urlacher (mtr #505) - How does the estate tax relate to in state tax.

Representative Carlson (mtr #528) - Don't know what the fiscal impact is at this time, but would flow through to us. The marriage penalty tax has also brought us more revenue because it is attached to the federal.

Senator Nichols (mtr #573) - Visited with an accountant, not real difficult for a husband and wife to protect an estate of two million. Is that true for business as well as farm and ranch operation?

Representative Carlson (mtr #607) - It is possible to do that, but all property has to be divided up and property needs to be titled differently.

Brenda Dissette, Executive Director of the North Dakota Association of Nonprofit Organizations (mtr #703) - Testified in opposition to HCR3043. Feel the bill is fiscally irresponsible in a time of fiscal crisis and budget cuts. Referenced a recent study that showed a estate tax can promote a state's economic growth. Written testimony is attached. Requests a do not pass.

Senator Nichols (mtr #1018) - With regard to SD. What is the estate tax rate?

Ms. Dissette - Not sure. Agreed that SD did decoupage

Senator Syverson (mtr #1055) - If individual would contribute a significant piece of property to a nonprofit organization. What would happen with regard to estate tax with that property.

Ms. Dissette (mtr #1097) - Not sure of the answer to that question. Would need to research.

Senator Syverson (mtr #1120) - The nonprofits in ND obviously have an interest in this bill. What is the value of property that has been transferred to nonprofits in a given year?

Ms. Dissette (mtr #1150) - Do not have that data. Trying to study how much property 501C-3 have. It will be a start.

Senator Syveron (mtr #1179) - Does your organization represent private universities and colleges?

Ms. Dissette (mtr #1202) - We represent the 501C-3 nonprofit organizations. At this time some universities are 501C-3's but are not members of our organization.

Senator Wardner (mtr #1259) - Given no further testimony, the hearing is closed.

Tape 1, Side 2

Senator Urlacher reopened the hearing on HCR3043. This resolution urges Congress to eliminate estate tax.

Senator Nichols (mtr #2142) - Adversely effects the state if it is done away with.

Senator Urlacher (mtr #2167) - Not sure of the fiscal effect to the state.

Senator Nichols (mtr #2199) - The testimony did indicate a loss to the state in the next four years of 19.3 million. Gave personal opinion on how the estate tax may work in his family.

Senator Wardner (mtr #2388) - Up to 2 million can be inherited with taxes?

Senator Nichols (mtr #2405) - At this time if a husband and wife plan their estate, 1 million apiece can be inherited without estate taxes.

Senator Syverson (mtr #2451) - Referred to the wording in the resolution and the fact that the estate tax law may be repealed at the federal level. Questioned if it is fair to impose a burden on the next generation. Is the amount the state is collecting really fair, double tax.

Senator Wardner (mtr #2560) - Referred to the second paragraph in the testimony of Ms. Dissette and the amount of estimated loss to ND if not decoupled from the federal estate tax.

Senator Tollefson (mtr #2635) - Looking at the first page of the resolution, ND would lose approximately 6 million dollars.

Senator Nichols (mtr #2687) - Feels decoupling works in conjunction with the federal estate exemption going up.

Senator Urlacher (mtr #2753) - Clarified his understanding that as the federal exemption increases, the state estate tax will go down, unless the state decouples from the federal tax.

Senator Seymour (mtr #2778) - Referenced language in the third paragraph of the resolution and clarified the meaning.

Senator Urlacher (mtr #2816) - Again clarified the intent of this resolution. If the state decoupled from the federal tax, the federal tax could do down and the state could still tax an estate. This resolution is a study of that estate tax impact.

Senator Nichols (mtr #2898) - Feels it makes a difference for large estates. It is also about gifts to nonprofit organizations along with heirs being taxed.

Senator Urlacher (mtr #2972) - Does not like the idea of the double taxation. But does realize there is double taxation in a lot of areas.

Senator Syverson (mtr #3000) - Does not disagree with what was said, but may be an incentive for people to gift to a worthy institution.

Senator Seymour (mtr #3066) - At this time people get a break by giving to a nonprofit and they like that. However, does agree with Senator Urlacher, this is just urging Congress to review.

Senator Syverson (mtr #3130) - 57th legislative session passed a resolution much like this one and we still have the tax.

Senator Urlacher (mtr #3157) - We want Congress to keep it in mind. Not sure if it is critical at this point.

Senator Seymour (mtr #3226) - Would/could this resolution make a difference.

Senator Urlacher (mtr #3251) - We really don't know if it makes a difference. But it may make a difference.

More general discussion by all Senators on this resolution along with the viability of resolutions.

Senator Syverson moves a Do Pass. Second by Senator Tollefson. Roll call 4 yea, 2 nay, 0 absent. Carrier is Senator Syverson.

Date: 3.4.03
Roll Call Vote #: 1

2003 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HCR 3043

Senate Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ____________

Action Taken Do pass

Motion Made By Sen Syverson Seconded By Sen Tollefson

Senators	Yes	No	Senators	Yes	No
Senator Urlacher - Chairman	✓		Senator Nichols		✓
Senator Wardner - Vice Chairman	✓		Senator Seymour		✓
Senator Syverson	✓				
Senator Tollefson	✓				

Total (Yes) 4 No 2

Absent ____________

Floor Assignment Senator Syverson

If the vote is on an amendment, briefly indicate intent:

IP

REPORT OF STANDING COMMITTEE (410)
March 4, 2003 4:17 p.m.

Module No: SR-38-3906
Carrier: Syverson
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HCR 3043: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **DO PASS** (4 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). HCR 3043 was placed on the Fourteenth order on the calendar.

2003 TESTIMONY

HCR 3043

John Risch
HCR 3043

united transportation union

750 Augsburg Avenue
Bismarck, ND 58504
Office: 701-223-0061
Fax: 701-223-0061
utu@bis.midco.net

JOHN RISCH
State Legislative Director
NORTH DAKOTA LEGISLATIVE BOARD

Long Live the Estate Tax!

There is a stunning disconnect between the terrible budget shortfalls facing states and localities and the priorities of federal tax-cutters. States face budget deficits of more than $60 billion for the coming year—and the ax is falling on mental health, education and children's healthcare. Libraries are being shuttered, tuitions increased and parks closed. Governors of all political persuasions talk about the need for massive federal relief to the states in the form of block grants and Medicaid subsidies.

Yet the President and Congressional tax-cutters are marching ahead with a $670 billion tax cut that could include elimination of dividend taxes and an acceleration of 2001 tax rate cuts. According to the Urban Institute–Brookings Institution Tax Policy Center, 42 percent of the benefits of the dividend tax cut will go to the richest 1 percent of taxpayers, whose incomes are above $330,000. These proposals have more to do with rewarding campaign contributors and lobbying patrons than with economic stimulus.

Also at the top of the domestic agenda is the push to make repeal of the federal estate tax permanent. Such a step will not have any short-term or long-term economic stimulus effect. But cutting $850 billion in revenue in the decade after the tax is phased out—money that would have been collected from the heirs of multimillionaires—will prolong the current fiscal crisis. Many states will feel the pain of revenue loss first because their inheritance and estate taxes are linked to the federal levy.

Today, the estate tax affects less than 2 percent of the richest households, those with wealth exceeding $1 million. A reformed estate tax, with wealth exemptions boosted to $3.5 million, would still generate tens of billions of dollars of revenue a year. Under such a reform, an estimated 6,000 estates a year, averaging $17 million each, would pay the tax. In Maine, Montana, Alaska and Mississippi—states where both senators have voted to completely eliminate the tax—the estimated number of estates paying the tax every year would be fewer than twenty-five.

Proposals to reform the tax have been blocked since 2000 by the "all or nothing" repeal lobby, which understands the peril of not having smaller estates as camouflage. Once exemptions rise above $3 million, it becomes impossible to find a credible and photogenic farmer or restaurant owner who will complain about what opponents call the "death tax." It's hard enough to find them now. The pro-repeal American Farm Bureau was asked to produce an example of a farmer who had lost a farm because of the estate tax. It could not identify a single one.

Lost in this debate are the benefits to our country of maintaining an estate tax. Originally passed in 1916, the estate tax was a fundamentally American response to the excesses of the Gilded Age. Populist reformers labored for the three decades before 1916 to pass federal income and estate taxes in order to shift the tax burden, mostly in the form of nineteenth-century tariff duties and excise taxes, off of Midwestern and Southern farm states and onto the wealthy Northeastern states. But underlying the movement for an estate tax was a recognition that too much concentrated wealth and power was putting our democracy at risk. We had fought a revolution to reject hereditary political and economic power—and the dizzying inequalities of the Gilded Age violated a fundamental American ideal of equality of opportunity.

We are now in a second Gilded Age. Instead of taking steps that would strengthen our democracy, we're heading backward to the wealth inequalities of a century ago. We need to preserve the estate tax in states and at the federal level for exactly the reason it is under assault. In a democracy, we should be offended when the power of concentrated wealth brazenly attempts to shape the terms of policy debate and dictate the rules of our society.

BILL GATES SR. AND CHUCK COLLINS

Bill Gates Sr., co-chair of the Bill and Melinda Gates Foundation, and Chuck Collins, co-founder of United for a Fair Economy and Responsible Wealth, are the authors of Wealth and Our Commonwealth: Why America Should Tax Accumulated Fortunes *(Beacon).*

Good Morning Chairman Urlacher and the Senate Finance and Taxation Committee. My name is Brenda Dissette, Executive Director of the North Dakota Association of Nonprofit Organizations. I am here to oppose HCR 3043.

The bill as it is written is fiscally irresponsible in a time of fiscal crisis and budget cuts and is one of the most progressive taxes there is. The amount of revenue loss to North Dakota between the years of 2003-2007 will be approximately $19.3 million if we do not decouple from the federal estate tax. Not to mention that charitable giving could be negatively affected.

There has been talk of small businesses and family farms losing their farms. Fact is, that the American Farm Bureau Federation acknowledged to the New York Times that it could not cite a single example of a farm or small business having to be sold to pay the estate tax. Small businesses and family farms are eligible for special tax treatment under current special valuation laws to reduce and even eliminate the estate tax liability.

The Center on Budget and Policy Priorities research on the effect of eliminating the estate tax and I have provided you with an analysis of the fiscal impact repealing the tax would have on North Dakota. Currently, every state has a tax on estates equal to at least the value of the credit that can be taken against federal liability. In most states, the estate tax are designed in such a way that states will face either a full or partial loss of revenues as the federal estate tax is phased out. More than half the states have decoupled from the federal repeal in an effort to reduce or eliminate the revenue loss. This requires changing state law so the elimination of the state estate tax credit in federal law does not automatically eliminate or reduce the amount of estate tax due to the state.

Retaining an estate tax can promote-not harm-a state's economic growth. A recent study of the ability of state and local governments to attract retires found the impact of taxes in general and state estate taxes in particular to be small at best. Other factors such as climate, availability of hospital services, and the share of population that is elderly all had larger effects. In the current fiscal climate, the cutbacks on services will discourage businesses and individuals from locating in a state and would have a larger negative impact on the state's future economic growth than the estate tax would.

I would like to request a do not pass by the Senate Finance and Taxation Committee. If you have any questions I will do my best to answer them to the best of my knowledge. Thank you.

CENTER ON BUDGET
AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org http://www.cbpp.org

Repeal of the Federal Estate Tax Would Cost the North Dakota State Government Millions

Congress has passed and sent to the White House legislation that would repeal the federal estate, gift, and generation-skipping transfer tax by 2010. Under this legislation, the estate tax would be reduced gradually over the next decade, leading to full repeal in calendar year 2010. Once the proposal was fully in effect — and the estate tax had been repealed — the proposal would cost the federal government about $50 billion a year.

States Share in the Federal Estate Tax

State governments also receive revenue through the federal estate tax. Under the current provisions of the federal estate tax, taxpayers receive a dollar-for-dollar credit against their federal estate tax liability for state estate and inheritance tax payments up to a specified amount. The maximum amount of the credit varies by the size of the estate.

Currently, every state has a tax on estates equal to at least the value of the credit that can be taken against federal liability. Information gathered from state budgets and state revenue officials suggests that states together would have lost approximately $5.5 billion in revenue in fiscal year 2000 if estate tax repeal had already been in effect. By 2010, when the estate tax repeal would be fully effective under the proposed legislation, the state revenue loss would approach $9 billion.

The sole estate tax that 35 of the 50 states — including North Dakota — have is a tax that exactly equals the amount of the state credit. In these states, the state law refers specifically to the amount allowed as a credit against the federal estate tax. This is commonly referred to as a "pickup" tax. A pickup tax provides revenue to the state but does not increase the federal estate tax payment the heirs must make. Instead, the estate's federal estate tax liability is reduced by the amount of the state tax payment.

Some 15 states also have their own inheritance or estate taxes, a portion of which qualifies as a pickup tax. All these states provide that if the amount of the state tax is less than the credit allowed against federal taxes, the state tax is increased to the amount of the credit. In cases where the state liability is greater than the credit, federal estate taxpayers receive a credit for the portion of their state tax that equals the maximum allowable credit. Of these 15 states, two are phasing out their separate tax and will rely only on the pickup tax in the future.

In recent years, many states have changed their own estate and inheritance taxes to rely solely on a pickup tax equal to the maximum federal credit. This has left them vulnerable. If the federal estate tax — and therefore the federal credit — are repealed, the action would repeal automatically the estate taxes of most of these states. Other states that have retained some version of their own estate or inheritance tax are likely to lose some, but not all, of their revenues from this source.

North Dakota Would Lose About $6 Million Annually if the Estate Tax were Repealed

North Dakota has only a "pickup" estate tax; that is, it has an estate tax that is set to equal the amount of the federal credit. Repeal of the federal estate tax would automatically repeal North Dakota's tax.

North Dakota received about $6 million from the pickup tax in fiscal year 2000. Had the estate tax repeal been in effect in that year, North Dakota would have lost approximately $6 million.

Analysis of the federal estate tax shows that it is paid solely by the wealthiest two percent of people who die each year. The elimination of North Dakota's estate tax would benefit the wealthiest taxpayers in the state while reducing the amount of revenue available to finance services for all state residents.

CENTER ON BUDGET AND POLICY PRIORITIES

Revised September 26, 2002

Many States Are Decoupling from Federal "Bonus Depreciation" Tax Cut
by Nicholas Johnson

From the late 1980s until 2001, nearly all states used the federal definition of taxable business income — including the federal allowance for depreciation — as the basis for their own tax calculations. A federal tax law enacted March 9, 2002, however, created a new tax deduction for "bonus depreciation" that threatens to cost states very large amounts of revenue. In response, many states are moving quickly to "decouple" from the federal code — in effect, disallowing the new bonus depreciation provision.

PDF of this report
Additional related **reports**
If you cannot access the files through the links, right-click on the underlined text, click "Save Link As," download to your directory, and open the document in Adobe Acrobat Reader.

Thirty states plus the District of Columbia that previously followed federal depreciation rules are now decoupled.

- In 23 states — Arizona, Connecticut, Georgia, Hawaii, Illinois, Indiana, Iowa, Maryland, Massachusetts, Minnesota, Missouri (for one year), Nebraska, New Jersey, North Carolina, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont (for corporate income tax filers only), Virginia, and Wisconsin — and in D.C. the decoupling resulted from, or was confirmed by, explicit legislative action following enactment of the federal law.

- Six other states, Arkansas, Idaho, Kentucky, New Hampshire, South Dakota and Texas, decoupled automatically under pre-existing tax law.

- The 30th decoupled state is Mississippi, as a result of a ruling by the state tax commissioner.

Among remaining states, California historically has not conformed to federal depreciation rules; Nevada, Washington and Wyoming do not have corporate or personal income taxes. Only a small number of states have enacted legislation to conform to the federal change. Florida, Maine (for tax years 2001 and 2003) and West Virginia have passed laws to conform. Alabama, Alaska (for non-oil and gas corporations), Colorado, Delaware, Kansas, Louisiana, Michigan, New Mexico, New York, Oregon and Utah, where legislative budget sessions have ended, and Montana and North Dakota, where there were no sessions this year, are conforming automatically to the change.

Click here to join the Center's e-mail notification list.
To ask questions, or send comments, write to bazie@cbpp.org
Center on Budget and Policy Priorities
820 First Street, NE, Suite 510
Washington, DC 20002
Ph: (202) 408-1080
Fax: (202) 408-1056