BUDGET & TAX CENTER FACT SHEET

February, 2013

Just the Facts:

House Bill 101 Aims to Repeal Estate Tax

- **House members have proposed repealing the state estate tax in 2013. The estate tax applies to the state's wealthiest individuals and families and contributes to the state's revenue system.**
- **Only a small number of North Carolina taxpayers are subject to the estate tax. For FY2010, only 123 taxpayers were subject to the estate tax and the number has dropped since then.**
- **Eliminating the estate tax would reduce state tax revenue by nearly $300 million over the next five years, according to the Fiscal Research Division.**
- **Eliminating the state estate results in state tax dollars going to federal government while making the state and local tax system even more upside-down.**

North Carolina's estate tax is a tax on property (cash, real estate, stock, or other assets) transferred from deceased persons to their heirs. The tax only applies to the wealthiest individuals in the state, as the tax is only levied on the portion of an estate's value that exceeds $5.25 million for 2013. North Carolina's estate tax is linked to the federal estate tax law as it existed in 2001. The maximum rate of the North Carolina tax is 16 percent of an estate's value. Estate taxpayers can deduct the amount of the state tax paid from the value of the estate for federal estate tax purposes. This reduces the effective rate of the North Carolina tax significantly.

Repealing the estate tax reduces state revenue but the resulting tax cut for the few taxpayers subject to estate tax is less than the full amount of state tax paid because the amount of federal estate tax owed will increase. The value of an estate for federal estate tax purposes is reduced by the amount of state estate taxes paid. Thus, repealing the estate tax means that 40 percent of revenue raised from the estate tax would now go to the federal government.

Estate Tax Applies to Small Number of North Carolina Taxpayers

The estate tax applies to a small number of taxpayers in North Carolina – less than one percent. For 2013, the estate tax, which provides an exclusion threshold of $5.25 million, is estimated to apply to less than 100 estates in North Carolina. By contrast, the state's failure to enhance the state Earned Income Tax Credit (EITC) to align with the federal EITC will impact nearly 907,000 North Carolinians.

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Estate Tax Does Not Require Small, Family-Owned Farms and Business to Liquidate Assets

Proponents of repealing the estate tax contend that small, family-owned farms would have to sell their farms to pay the estate tax. Research finds this claim to be untrue. The Tax Policy Center estimates that only 40 small businesses and farm estates nationwide owed any estate tax in 2012. For 2013, the exclusion threshold of $5.25 million will likely not increase the number of small businesses and farms subject to the estate tax. Moreover, multiple provisions reduce the amount of estate tax a small business or farm would owe.

Repealing Estate Tax Worsens Regressive State and Local Tax System

The estate tax helps address the regressive, upside-down nature of North Carolina's state and local tax system. Low- and moderate-income families pay a greater share of their income in state and local taxes compared to wealthier families. Repealing the estate tax would worsen the overall regressive nature of the state and local tax system.

Conclusion

Efforts to repeal the estate tax would reduce state tax collections and send some existing state tax revenue raised through the estate tax to the federal government. Less state revenue will further challenge the ability of the state to finance the investments needed to support economic opportunity and a growing economy. The estate tax is the most progressive component of the state's tax system and helps address regressive state and local taxes. Accordingly, tax reform efforts should retain, not eliminate, the estate tax.

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