

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 11:00 A.M. on January 25, 2006 in Room 519-S of the Capitol.

All members were present.

Committee staff present:

Chris Courtwright, Kansas Legislative Research
Martha Dorsey, Kansas Legislative Research
Gordon Self, Revisor of Statutes Office
Judy Swanson, Secretary

Conferees appearing before the committee:

Senator Pete Brungardt
Chris Wilson, Kansas Building Industry Association
Richard Jensen, Branson, MO
Tom Folsom, Department of Property Valuation
Delton Guilliland, Kansas Association of Counties

Others attending:

See attached list.

Hearing on: **SB 423--Award of attorney fees to taxpayer in certain appeals by county of orders of board of tax appeals**

Senator Pete Brungardt testified **SB 423** would cause the Saline County appraiser to follow the statute and abide in Board of Tax Appeals rulings. (Attachment 1)

Chris Wilson, Kansas Building Industry, testified **SB 423** would be good public policy. (Attachment 2) The Special Committee on Assessment & Taxation recommended this bill to the 2005 Legislature.

Richard Jensen, Branson, Missouri, testified about the problems he is having with the Saline County Appraiser. (Attachment 3) He showed a picture of a single family dwelling as an example of what the appraiser had used for a comparable property to his 122-unit apartment building.

During Committee discussion Chris Wilson said she is unaware of any other counties with this problem. County Commissioners hire the County Appraiser. The Saline County Commissioners renewed their appraiser's contract in 2005 for another four years, by a vote of 2-1. The contract was renewed after the Legislature passed the fair market appraisal bill.

Tony Folsom, Deputy Director of Property Valuation, testified his department does not step into county problems unless it is requested to do so. PVD is aware of the Saline County situation, but Mr. Folsom did not know if PVD had been asked to intervene. He will let the Committee know after checking with his department.

Senator Bruce suggested amending the bill on page 2, line 8, by deleting the word, "shall" and inserting in lieu of, the word "may".

Delton Guilliland, Osage County Counselor, testified on behalf of the Kansas Association of Counties, in opposition to **SB 423**. (Attachment 4) He felt the bill as drafted is unfair to counties as it puts an unfair burden on the counties to pay legal fees. If the bill was amended as recommended by Senator Bruce, it would be more acceptable, but still not acceptable to KAC. If passed, the bill should be reciprocal, requiring the taxpayer to be responsible to the county for its legal expenses should the taxpayer lose a case.

Hearing on **SB 423** was closed.

Committee discussion was held on:

SB 356--concerning estate tax taxation
SB 365--enacting the Kansas estate tax law

CONTINUATION SHEET

MINUTES OF THE Senate Assessment and Taxation Committee at 10:30 A.M. on January 25, 2006 in Room 519-S of the Capitol.

Several Senators voiced support of **SB 356**. Chris Courtwright, Legislative Research, presented information concerning other states with stand-alone estate taxes (Attachment 5), and an estate tax table reflecting fiscal impact and receipts under 1) Current Law; 2) SB 365 and 3) SB 356. (Attachment 6) The Federal estate tax goes away in 2012. The Kansas revenue stream will decrease over the next several years, because it is tied to the Federal phase-out of the estate tax. Senator Schmidt made several clarifications of how the estate tax would be phased out, and said the primary question is whether Kansas wants to have an estate tax or not. Senator Donovan said the Committee has the option of doing nothing and just phasing out the Kansas estate tax with the Federal estate tax. Senator Jordan said he thought all options should be explored, because there are other tax issues such as the commercial machinery and equipment exemption proposal that will impact State finances if passed into law.

Chairman Allen appointed a sub-committee to further study **SB 356** and **SB 365**. Senator Bruce will serve as sub-committee chair with Senators Apple, Lee and Pine. The sub-committee will meet on January 31 during the regular scheduled Committee time, since the full Committee is not scheduled to meet. Chairman Allen urged Committee members to submit their suggestions to the sub-committee.

Senator Schmidt made a motion to approve the January 19 Committee meeting minutes. Senator Donovan seconded the motion, and the motion passed.

Being no further business, the committee adjourned at 12:00 noon.

SENATE
ASSESSMENT & TAXATION COMMITTEE

GUEST LIST

DATE: 01-25-06

| NAME | REPRESENTING |
|--------------------------|---------------------------------|
| Cynthia M. Gilliland | Osage County Counsel |
| Richard W. (Dick) Jensen | Taxpayer |
| Chris Wilson | K Building Industry Association |
| Martha Jean Smith | KMLIA |
| Mike Reesat | Maches Braden |
| Bill Brady | C.S. |
| TONY A. SCOTT | KSCPA |
| JIM CLARK | KBA |
| David R. Corbin | K DOR |
| Tony Folson | K DOR |
| Jim Weisgerber | K DOR |
| Allie Devine | K. Livestock Association |
| Doug Wareham | Kansas Bankers Association |
| Judy Moler | KAC |
| Ron Seiber | Ken Law Firm |
| | |
| | |
| | |

PETE BRUNGARDT

SENATOR, 24TH DISTRICT
522 FAIRDALE RD.
SALINA, KS 67401

STATE CAPITOL, ROOM 522-S
TOPEKA, KANSAS 66612-1504
(785) 296-7390

BRUNGARDT@SENATE.STATE.KS.US



TOPEKA

SENATE CHAMBER

COMMITTEE ASSIGNMENTS

CHAIR: FEDERAL AND STATE AFFAIRS
VICE CHAIR: HEALTH CARE STRATEGIES
MEMBER: FINANCIAL INSTITUTIONS
AND INSURANCE
PUBLIC HEALTH AND WELFARE
ORGANIZATION, CALENDAR
AND RULES

INTERIM COMMITTEES:
CORRECTIONS AND JUVENILE
JUSTICE OVERSIGHT
STATE-TRIBAL RELATIONS

January 25, 2006

TESTIMONY IN SUPPORT OF SB 423:

Good morning Chairman Allen and colleagues on the Assessment and Taxation Committee. We have a unique situation with a county appraiser in Saline County. As members of this Committee will recall, we have had a few different bills narrowly drafted to indicate to the appraiser that he should follow statute and should abide in B.O.T.A. rulings.

As you will hear this morning, he remains recalcitrant on these issues. The current approach is to allow the citizen's recovery of attorney fees if the citizen is upheld in the appeal process. I will leave the details to Chris Wilson and other conferees. I ask your consideration in helping us draft a workable solution to some poor execution in local government.

Pete Brungardt

State Senator, District 24

Assessment # Taxation
Date 1-25-06
Attachment #



OFFICERS

President
RON HAGEMAN
3401 Churchill
Manhattan, Ks 66503
785-537-4424
Fax 785-565-9793
hageman@networksplus.net

Vice-President
MIKE FLORY
813 Fairdale Road
Salina, KS 67401
785-825-5230
Fax: 785-820-8768
mflory@tri.net

Treasurer
GARY PASHMAN
6354 S.W. 10th Avenue
Topeka, KS 66615
785-273-1294
gpconst@earthlink.net

Secretary
FARROL BROWN
16514 S. Old Stage Road
Pretty Prairie, KS 67570
620-459-6629

H.B.A. ASSOCIATIONS
IN KANSAS
Dodge City
Garden City
Hutchinson
Kansas City
Lawrence
McPherson
Manhattan
Salina
Topeka
Wichita

PAST PRESIDENTS
Richard Standrich 2003
Jeff Schrock 2002
David Reynolds 2001
John Young 2000
Michael Stibal 1999
John Samples 1998
Roger Schultz 1997
R. Neil Carlson 1996
Tom Ahlf 1995
James D. Peterson 1994
Gilbert Bristow 1993
Vernon L. Weis 1992
Elton Parsons 1991
Jim Miner 1990
Robert Hogue 1989
M.S. Mitchell 1988
Richard Hill 1987
Jay Schrock 1986
Joe Pashman 1985
Harold Warner, Jr. 1984
Frank A. Stuckey 1983
Donald L. Tasker 1982
John W. McKay 1981
Richard H. Bassett 1980

STATEMENT OF THE KANSAS BUILDING INDUSTRY ASSOCIATION
TO THE SENATE ASSESSMENT & TAXATION COMMITTEE
SENATOR BARBARA ALLEN, CHAIR
REGARDING S.B. 423

January 25, 2006

Chairman Allen and Members of the Committee, I am Chris Wilson, Executive Director of the Kansas Building Industry Association. Our over 2300 members are involved in the state's residential building industry. KBIA is in support of S.B. 423. We appreciate Sen. Brungardt's request for this bill and the Committee's introduction and prompt hearing of it.

KBIA believes that S.B. 423 would be good public policy.

An identical bill was introduced by the late Representative Carol Beggs in 2004. Representative Beggs' bill was H.B. 2540 and passed the House of Representatives 123-1, reaching this Committee too late in the Session for consideration. However, the topic was recommended for interim study that year, and the Special Committee on Assessment and Taxation recommended the bill to the 2005 Legislature. Last year, the same language was passed by the House of Representatives again, without dissent, and was a conferenceable item. However, the bill it was in included another measure which became mute, and the bill was used as a vehicle for another matter.

KBIA, as many of you will recall, has taken issue with the appraisal of vacant lots in Saline County, where the appraised value has been derived by adding the sales price of the lot and the special assessment debt amount, rather than determination of fair market value pursuant to K.S.A. 79-503a. The Legislature amended that statute in 2003 to clarify that the appraisal is to be based on fair market value. In Saline County, however, the appraisals have continued as before,



Assessment & Taxation
Date 1-25-06
Attachment # 2

despite the change in law and numerous Board of Tax Appeals rulings to the contrary. Other issues have also arisen which prompted the introduction of this bill.

Frankly, when Rep. Beggs first brought up this idea, we thought it was a good idea but might not make much difference for us. Our members are frequently before the Board of Tax Appeals disputing a Saline County appraisal, but have won and the county has not appealed the BOTA decisions.

A recent case, however, has brought to light the need for this bill. A commercial developer, not a member of my Association, appealed a property appraisal on the issue of whether his development was condominiums or apartments. He won at BOTA, and the county appealed, all the way to the Supreme Court. The taxpayer won at every level, at a cost of \$70,000 in legal fees. Within a week after learning that the county had exhausted its appeals, he learned that the county would apply that decision only for the tax year he had appealed and would start the process over on the same property, same issue, for the next tax year.

We believe this is an abuse of power and the kind of action that might be deterred if S.B. 423 were law. While we have these concerns with Saline County, this bill isn't just about Saline County. It's about preventing that kind of problem in the state.

Thank you for the opportunity to provide this statement in support of S.B. 423, and we encourage you to report it favorable for passage.

Excerpt from Salina Journal

May 28, 2005

Dick Jensen, who said he spent \$70,000 in legal and appraisal fees to get \$42,000 back from the county regarding 1999 appraisals of his three rental properties, said he will ask the commission not to extend Broberg's contract.

"I think my case, particularly, has shown that he uses his individual power and intimidation to try to win cases, and especially my case."

Jensen claimed to the Board of Tax Appeals that his apartment complexes were overvalued for tax purposes by \$1.2 million in 1999. The board agreed, and the ruling was upheld by the district court and the Kansas Court of Appeals. The Kansas Supreme Court refused to take the case.

Jensen said he didn't get his \$42,000 refund, most of which was from the 1999 issue, until eight or nine months after the county had exhausted its appeal options. He said he was paid \$7,000 in interest because of the delay.

He spent \$70,000 to get that \$42,000 back, but over time, he said the \$16,000 per year he had been overpaying would have added up.

"It's so much money, I can't afford not to fight 'em," he said.

Special Committee on Assessment and Taxation

ATTORNEYS' FEES AND SBOTA ORDERS

CONCLUSIONS AND RECOMMENDATIONS

The Committee finds that taxpayers should be entitled to attorneys' fees under certain circumstances and therefore recommends that legislation similar to HB 2540 be enacted by the 2005 Legislature.

Proposed Legislation: The Committee recommends the introduction of one bill on this topic.

BACKGROUND

During the 2004 Session, Representative Beggs introduced HB 2540. That legislation would have amended KSA 74-2426 to provide that for certain appeals of State Board of Tax Appeals (SBOTA) orders by counties to district courts, such courts would have been required to award taxpayers reasonable attorneys' fees and costs for those cases wherein taxpayers prevail at the district court level.

HB 2540 was approved by the House Taxation Committee; and subsequently by the full House in late March on a vote of 123-1. The legislation was referred to the Senate Assessment and Taxation Committee, where it died at the end of the 2004 session.

The issues raised in HB 2540, however, were discussed by tax conferees at the conclusion of the 2004 session. That group recommended the topic to the Legislative Coordinating Council (LCC) for interim study, a request subsequently approved over the summer by the LCC.

A fiscal note on the bill indicated that while the attorneys' fees provision would not be expected to affect state revenues or expenditures, it had the potential to increase expenditures for counties under certain circumstances.

COMMITTEE ACTIVITIES

At the October meeting, the Committee held the public hearing. Conferees from the Kansas Association of Counties and Kansas County Appraisers' Association said that if the Committee were going to consider reintroducing the bill in 2005, amendments should be made to also allow counties to recover legal costs when taxpayers have continued to pursue certain appeals beyond SBOTA.

Testimony presented by the Property Valuation Division indicated that staff had identified 31 cases that had been appealed from SBOTA to the district courts since 1989 that would have been affected by the provisions of HB 2540.

At the November meeting, the Committee reviewed its policy options and made final decisions regarding this topic.

CONCLUSIONS AND RECOMMENDATIONS

The Committee finds that taxpayers should be entitled to attorneys' fees when prevailing under certain circumstances at the district court level and therefore recommends that legislation similar to HB 2540 be enacted by the 2005 Legislature.

2-4

Reports of the
Special Committee on Assessment and Taxation
to the
2005 Kansas Legislature

CHAIRPERSON: Representative John Edmonds

VICE-CHAIRPERSON: Senator David Corbin

RANKING MINORITY MEMBER: Representative Tom Sawyer

OTHER MEMBERS: Senators Les Donovan, Greta Goodwin, Janis Lee, and Lana Oleen;
and Representatives Steve Huebert, David Huff, Bill McCreary, Jim Miller, Arlen
Siegfreid, and Tom Thull

STUDY TOPICS

Attorneys' Fees and SBOTA Orders

Confidentiality and Disclosure of Tax Information

Delinquent Tax Collection

Delinquent Taxes and Liquor License Renewal

Delinquent Taxes and Professional License Renewal

Excise Tax Authority of Municipalities

Franchise Tax Administration

Monitor Streamlined Sales Tax Implementation

Tax on Isolated Sale of Motor Vehicles

December 2004

Richard Jensen :

After exerting all appeals, won against Saline County.

Saline County Appraiser said he would make me appeal every year thereafter.

Saline County Appraiser has personal vendetta against me.

Assessment & Taxation
Date 1-25-06
Attachment # 3

TO: Senate Assessment and Taxation Committee

SUBMITTED BY: Delton M. Gilliland, Osage County Counselor

SUBJECT: Senate Bill No. 423 – Session of 2006
Testimony at 25 January 2006 hearing.

Thank you for allowing me to follow up my oral testimony on Senate Bill No. 423 with this written testimony. This will explain my reasons for opposition to the bill, with which Kansas Association of Counties concurs.

County government has sole responsibility for protecting the tax base as it relates to appraisal of real property. In many situations of proceedings initiated before The Board of Tax Appeals the amount of County tax revenue which might be affected by an order of BOTA can be expected to be less, perhaps significantly less, than the cost to the County of contesting the appeal or protest of the taxpayer. In these situations, Counties most likely contest the taxpayer's application for the purpose of defending the County's appraisal as it affects other similar properties and in order to avoid setting a precedent. In cases where the tax effect to the County will be expected to exceed the cost to the County of litigation, the applicant taxpayer is most likely an affluent or wealthy taxpayer.

In either circumstance, the prospect of the imposition of additional significant expenses to the County in unsuccessful appeals can be expected to have the effect of deterring counties from vigorously prosecuting meritorious claims.

Discretionary funds available in the budget of small population rural counties are limited. It is quite foreseeable that a wealthy or "big business" taxpayer could put the County in the position of electing to not proceed with an appeal in district court and take the risk of the assessment of attorney's fees in the event such effort were unsuccessful. An affluent taxpayer could also be expected to incur high attorney's fees in a BOTA appeal or protest if it were important enough to the taxpayer, particularly if the proceeding were to impact the taxpayer's property in other Counties. It is not unlikely that a property owner's resources available for these purposes might exceed that of a County, particularly if a County faced the prospect of paying attorney's fees for the other party.

Please consider also that Counties have the exclusive obligation of protecting the tax base by defending valuations, tax status, or tax classification of real property in the County, notwithstanding changes in valuation, tax status, or tax classification affect other municipalities such as cities, school districts, and townships for which the County appraises real property and collects tax. Further, Counties appraisal effect ad valorem taxes collected by County government on behalf of the State of Kansas, specifically for the State Education Building Fund and State Institutions Building Fund. It seems contradictory and unfair for State government to place impediments upon County government in performing

government to place impediments upon County government in performing functions required of Counties by State law, and which benefit State government directly.

The legislation under discussion appears to have a narrow focus as to the motivating factor and problem to be corrected.

The entire motivating issue seems to condense to a private disagreement between one taxpayer and a particular County Appraiser. If the requested Statutory change had been in response to a problem recognized to exist generally across the State, perhaps it would be a legitimate matter for legislative consideration. Here, however the Kansas Legislature is being requested to address and correct what one property owner perceives to be a wrong committed by a County government. This is a function more properly left to the Courts which are in the business of resolving individual cases. Special legislation motivated by and most likely to benefit a single individual is not a proper function of the legislature.

Further, if the Committee or full legislature concludes that the individual issue before it is worthy of being corrected by legislation, neither this Committee, the Senate, nor the Kansas Legislature are in the position to make a decision based on information gleaned from a few minutes of testimony presented by an interested property owner, unverified and self-serving, without cross examination, or testimony from the other affected party. Quite likely a full hearing of the facts surrounding the situation would reveal that, although the County appraiser was not sustained by BOTA or the Courts, that he was still performing the functions of his office ethically and within the requirements of the law. Whether that is accurate or not, neither this Committee, the Senate, nor the Kansas Legislature is in the position to make an informed judgment as to the merits of the property owner's complaints nor, consequently, the proposed legislation.

If any legislation of this nature is passed by this Committee, the best that it should provide is that attorney's fees can be assessed against either party to a district court appeal from a BOTA order.

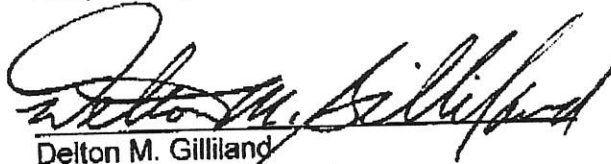
A better procedure, if this Committee is of the opinion that a problem exists which needs to be addressed, that K.S.A. 74-2426 be amended to provide that attorney's fees maybe awarded by the court against either party in the event of being found to have proceeded or pleaded in bad faith, as in K.S.A. 60-211 relating to proceedings in district courts.

The requested amendment may, in any event, be redundant if passed. Chapter 60, Article 2, K.S.A., governs procedure in the district courts of Kansas (K.S.A. 60-201) and K.S.A. 60-211 is obviously found in Chapter 60, Article 2. Appeals from BOTA orders are proceedings in district courts. Although the preparer of this testimony has not researched the matter extensively, it is likely that under

existing law, either party might be assessed attorney's fees against them in the event of having been found to have pleaded or proceeded in bad faith in an appeal of a BOTA order to district court.

Senate Bill No. 423 will, if passed as drafted, result in an unfair burden being placed in Counties in valuation appeals and protest matters, and will act as a deterrent to the County performing those obligations required by Kansas law. The Committee should not recommend Senate Bill No. 423 to the full Senate for consideration.

Respectfully submitted,



Delton M. Gilliland
Osage County Counselor

26 January 2006.

From: Chris Courtwright
To: Barbara Allen; Derek Schmidt; Gordon Self; Greta Goodwin; Janis Lee; Judy Swanson; Donovan, Les; Nick Jordan; Pat Apple; Roger Pine; Terry Bruce
Date: 1/24/2006 11:09:37 AM
Subject: More on State Estate Taxes (Stand-Alone)

Harley Duncan at FTA provided this chart via our Dept of Revenue of states which have stand-alone estate taxes and how some of them are structured. (This is a follow-up to the emails I sent last week.)

Assessment & Taxation
Date 1-25-06
Attachment # 5

| State | Death Tax Specifics | Exemption Amount |
|-----------------------|---|---|
| Connecticut | Taxable estate equal to federal gross estate plus taxable gifts made by decedent on or after January 1st, 2005. State tax rates and exemption amount independent of Federal estate tax law. Tax rates range from 5.085% to 16% on taxable estates in excess of \$10,000,000. | \$2,000,000 |
| Washington, DC | State estate tax equal to maximum state death tax credit computed by Federal law as it existed on January 1, 2001, without regard to the EGTRRA phase-out. | Exemption equal to that allowed for Federal estate tax as of January 1, 2001 - \$675,000. |
| Illinois | Taxable estate equal to federal taxable estate as defined by current federal law. State estate tax equal to maximum state death tax credit computed by Federal law as it existed on January 1, 2001, without regard to the EGTRRA phase-out. | Exemption equal to that allowed for federal estate tax under current law until federal exemption exceeds \$2,000,000. At that point, state exemption capped at \$2,000,000. |
| Indiana | Inheritance tax. Beneficiaries divided into four categories: surviving spouse and charities, Class A (lineal relations), Class B (horizontal relations), and Class C (all other beneficiaries). Tax rates on the fair market value of transferred property are progressive with property value and class letter. | Surviving spouse and charities - 100% exempt, Class A - \$100,000, Class B - \$500, Class C - \$100 |
| Iowa | Inheritance tax. No tax on estates valued at less than \$25,000. Beneficiaries divided into five main categories: Schedule A (surviving spouse, lineal relations), Schedule B (immediate horizontal relations), Schedule C (all other individual beneficiaries), Schedule D (for-profit organizations), and Schedule E (charitable, educational and religious organizations). Tax rates on the fair market value of transferred property are progressive with property value and schedule letter. | Schedule A - 100% exempt, Schedule B,C,D - no exemption, Schedule E - \$500 |

| | | |
|------------------|--|---|
| Kansas | State estate tax equal to maximum state death tax credit computed under federal law as it existed on December 31, 1997, without regard to the EGTRRA phase-out. | <i>Exemption equal to federal exemption amounts set by 1997 federal law. Deaths in 2005 - \$950,000, Deaths in 2006 or after -</i> |
| Kentucky | Inheritance tax. Beneficiaries divided into three categories: Class A (surviving spouse, lineal relations, immediate horizontal relations), Class B (most other relations), Class C (all other beneficiaries). Tax rates on the fair market value of transferred property are progressive with property value and class letter. | Class A - 100% exempt, Class B - \$1,000, Class C - \$500 |
| Louisiana | <i>Inheritance tax. No tax on estates valued at less than \$15,000. Beneficiaries divided into four categories: category 1 (direct lineal relations and surviving spouse), category 2 (collateral relations), category 3 (strangers or non-related persons), and category 4 (charitable, educational and religious organizations). Tax rates on the fair market value of transferred taxable property are progressive with property value</i> | Surviving Spouse - 100% exempt, rest of category 1 - \$25,000, category 2 - \$1,000, category 3 - \$500, category 4 - 100% exempt |
| Maine | State estate tax equal to maximum state death tax credit computed by federal law as it existed on January 1, 2001, without regard to the EGTRRA phase-out. | Exemption equal to federal exemption set by 2000 Federal law. Deaths in 2005 - \$950,000, Deaths in 2006 or after - \$1,000,000 |
| Maryland | Inheritance and estate tax. Inheritance tax. Tax rate of 10% applied to clear value of property passing from decedent to beneficiaries. Estate tax. Equal to maximum state death tax credit computed under federal law as it existed on January 1, 2001, minus inheritance tax. | Inheritance tax. Property passed to spouse, lineal relations and siblings exempt from taxation. Estate tax. \$1,000,000 |

| | | |
|----------------------|--|--|
| Massachusetts | State estate tax equal to maximum state death tax credit computed under federal law as it existed on December 31, 2000, without regard to the EGTRRA phase-out. | Exemption equal to federal exemption set by 2000 Federal law. Deaths in 2005 - \$950,000, Deaths in 2006 or after - \$1,000,000 |
| Minnesota | State estate tax equal to maximum state death tax credit computed under federal law as it existed on December 31, 2000, without regard to the EGTRRA phase-out. | Exemption equal to federal exemption set by 2000 Federal law. Deaths in 2005 - \$950,000, Deaths in 2006 or after - \$1,000,000 |
| Nebraska | State estate tax and local inheritance tax. State estate tax rates and exemption amount independent of Federal estate tax law. Tax rates range from 5.6% of taxable estate amount under \$100,000 to 16.8% of taxable estate amount over \$9,000,000. Inheritance tax is determined at county level and deductible from state estate tax. | \$1,000,000 |
| New Jersey | Inheritance and estate tax. Inheritance tax. Beneficiaries divided into four categories: Class A (surviving spouse and lineal relations), Class C (horizontal relations), Class D (all other individual beneficiaries), and Class E (charitable, educational, and religious organizations). Tax rates on the fair market value of transferred property are progressive with property value and class letter. Estate tax. State estate tax equal to maximum state death tax credit computed under federal law as it existed on December 31, 2001, | Inheritance tax. Class A - 100% exempt, Class C - \$25,000, Class E - 100% exempt. Estate tax. Exemption equal to exemption for federal estate tax as it existed on December 31, 2001 - \$675,000. |
| New York | State estate tax equal to maximum state death tax credit computed under federal law as it existed on July 22, 1998, without regard to the EGTRRA phase-out. | Exemption equal to federal exemption amounts set by 1998 Federal law - \$1,000,000 |

| | | |
|-----------------------|---|--|
| North Carolina | State estate tax equal to maximum state estate tax credit computed by Federal law as it existed on December 31, 2001, without regard to the EGTRRA phase-out. | Exemption equal to exemption for federal estate tax as it existed on December 31, 2001 - \$675,000. |
| Ohio | State estate tax rates and exemption independent of federal estate tax law. Tax rates are 6% for taxable estate amount under \$500,000 and 7% for taxable estate amount over \$500,000. | \$338,333 |
| Oklahoma | State estate tax rates and exemptions independent of Federal estate tax law. Beneficiaries divided into two categories: lineal heirs and collateral heirs. Separate tax rates for each category. Tax rates progressive with estate value. Lineal heirs: 0.5% to 10% of taxable estate. Collateral heirs: 1% to 15% of taxable estate. | Lineal heirs: deaths in 2005 - \$950,000, deaths in 2006 or after - \$1,000,000. Collateral heirs: no exemption. |
| Oregon | State estate tax equal to maximum state estate tax credit computed by Federal law as it existed on December 31, 2000, without regard to the EGTRRA phase-out. | Deaths in 2005 - \$950,000, Deaths in 2006 or after - \$1,000,000 |
| Pennsylvania | Inheritance tax. Beneficiaries divided into four categories: category 1 (spouse and parents of under 21 decedent), category 2 (lineal descendent), category 3 (sibling), category 4 (all other beneficiaries). Tax rates: category 1 - 0%, category 2 - 4.5%, category 3 - 12%, category 4 - 15% | category 1 - 100% exempt |
| Rhode Island | State estate tax equal to maximum state death tax credit computed by federal law as it existed on January 1, 2001, without regard to the EGTRRA phase-out. | Exemption equal to that allowed for Federal estate tax as of January 1, 2001 - \$675,000. |
| Tennessee | Inheritance tax imposed on net taxable estate of decedent. Tax rates range from 5.5% of taxable estate amount under \$40,000 to 9.5% of taxable estate amount over \$40,000. | Deaths in 2005 - \$950,000, Deaths in 2006 or after - \$1,000,000 |

| | | |
|-------------------|--|---|
| Vermont | State estate tax equal to maximum state death tax credit computed by federal law as it existed on January 1, 2001, without regard to the EGTRRA phase-out. | Exemption equal to that allowed for Federal estate tax as of January 1, 2001 - \$675,000. |
| Virginia | State estate tax equal to maximum state death tax credit computed by federal law as it existed on January 1, 1978, without regard to the EGTRRA phase-out. | Exemption equal to exemption for federal estate tax as it exists in current federal law, Deaths in 2005 - \$1,500,000, Deaths in 2006 or after - |
| Washington | State estate tax equal to maximum state death tax credit computed by federal law as it existed on January 1, 2001, without regard to the EGTRRA phase-out. | Exemption equal to that allowed for Federal estate tax as of January 1, 2001 - \$675,000. |
| Wisconsin | State estate tax equal to maximum state death tax credit computed by federal law as it existed on December 31, 2000, without regard to the EGTRRA phase-out. | Exemption equal to that allowed for Federal estate tax as of December 31, 2000 - \$675,000. |

Estate Tax Receipts Under Current Law, SB 365, and SB 356

(\$ in millions)

| | SGF Receipts- Current <u>Law</u> | SGF Receipts- SB 365 <u>Stand-Alone</u> | SB 365 <u>F Note</u> | SGF Receipts- SB 356 <u>Repeal</u> | SB 356 <u>F Note</u> | F Note Difference Between <u>SB 365, 356</u> |
|------------|---|--|-------------------------|---|-------------------------|---|
| FY 2007 | \$52.0 | \$52.0 | \$0.0 | \$39.0 | -\$13.0 | \$13.0 |
| FY 2008 | \$43.0 | \$52.0 | \$9.0 | \$0.0 | -\$43.0 | \$52.0 |
| FY 2009 | \$32.0 | \$52.0 | \$20.0 | \$0.0 | -\$32.0 | \$52.0 |
| FY 2010 | \$15.0 | \$52.0 | \$37.0 | \$0.0 | -\$15.0 | \$52.0 |
| FY 2011 | \$5.0 | \$52.0 | \$47.0 | \$0.0 | -\$5.0 | \$52.0 |
| FY 2012 | \$0.0 | \$52.0 | \$52.0 | \$0.0 | \$0.0 | \$52.0 |
| thru FY 12 | \$147.0 | \$312.0 | \$165.0 | \$39.0 | -\$108.0 | \$273.0 |

Assessment & Taxation
 Date 1-25-06
 Attachment # 6