

Inheritance and Estate Taxes

The Missouri inheritance tax was first enacted in 1917 and remained basically unchanged until its repeal in 1980. The base of the tax was the net appraised or market value of the decedent's estate. The latter was defined as the value of total assets less allowable deductions.

Assets

- (1) Market value of real estate less encumbrance
- (2) Furniture, household goods and wearing apparel
- (3) Corporation stock
- (4) Mortgages, bonds and notes
- (5) Bank accounts, currency and insurance policies
- (6) Other personal property

Deductions

- (1) Lawful debts
- (2) Taxes owed
- (3) Administrative expenses

Unlike estate taxes, which are levied against and paid by the estate of the decedent, the inheritance tax was a levy against the value of the estate distributed to the beneficiaries of the decedent. The amount of the tax was a function of two factors:

- (1) the size of the estate and
- (2) the relationship of the beneficiary to the decedent.

The type of relationship determined both the marginal tax rates and size of the exemption allowed.

Relationship	Exemption	Marginal Tax Rates
(1) Wife ¹	\$20,000	1%-6%
Children ²	\$5,000	
(2) Brothers, sisters & their spouses or children	\$500	3%-18%
(3) Aunts, uncles & their children	\$250	3%-18%
(4) Other family members	\$100	4%-24%
(5) Unrelated individuals ³ & nonexempt organizations	\$100	5%-30%

For estates of less than \$20,000, the marginal tax rates ranged from 1 percent to 5 percent depending upon the beneficiaries relationship to the decedent. For larger estates, \$40,000 or more, the marginal tax rates ranged from 6 percent to 30 percent (see Appendix II).

The original Missouri estate tax was enacted in 1927 and became effective as of April 7 of that year. This levy was commonly known as the "pickup tax." It applied to all estates on which the Missouri inheritance tax was

Estate Tax by Calendar Year			
2006 Rank of portion of gross receipts: 9			
2006 Tax Rate: Not Applicable			
	2004	2005	2006
Gross Receipts			
General Fund	61.3	21.0	6.4
Other	0.0	0.0	0.0
Tax Expenditures	0.0	0.0	0.0

Figures in millions of dollars

less than 80 percent of the federal estate tax liability. The amount of the tax was this difference.

The current Missouri estate tax became effective January 1, 1981, as a replacement for the inheritance tax for individuals who died after that date. Like the old inheritance tax, it is a levy against the taxable estate of the decedent. Unlike the inheritance tax, however, it is assessed on the estate itself as opposed to the beneficiaries.

The tax base for the Missouri tax is derived from the Federal Estate Tax Return. The base for the Missouri estate tax is the federal credit for state death taxes in the derivation of the federal tax. The Missouri tax is this amount less any inheritance or estate taxes paid to other states.

Other than the size of the taxable estate and federal tax rates, the two factors that bear directly on the Missouri estate tax are the amount of the Unified Credit (or equivalent exemption amount) and the Credit for State Death Taxes.

The size of the Federal Unified Credit determines the floor for the Missouri tax since all estates less than this amount are exempt. This credit is presented in Exhibit 15 for years since the enactment of the current Missouri statute.

For taxable estates, those greater than the Unified Credit, the Missouri estate tax is simply calculated as shown in Exhibit 18.

Pursuant to federal estate tax changes, the Credit for State Death Taxes will be reduced by 25% beginning in 2002. This implies that the estate tax receipts will decline to zero in fiscal year 2006. The Federal tax law completely reverts in 2011 to what it was prior to the enactment of the Estate Tax repeal, unless changes are made to the law before then.

¹ Original exemption amount was \$15,000.

² For children with physical or mental disabilities, the exemption was \$15,000 per child.

³ The value of the estate bequeathed to charitable or civic organizations was exempt.

Exhibit 15 Derivation of Federal Estate Tax

Gross Estate	Value of all real and personal properties, financial assets and life insurance					
<i>less</i>						
Allowable Deductions	<table style="border-left: 1px solid black; border-right: 1px solid black; padding-left: 5px;"> <tr><td>Funeral and administration expenses</td></tr> <tr><td>Debt</td></tr> <tr><td>Mortgages and liens</td></tr> <tr><td>Bequest to surviving spouse</td></tr> <tr><td>Charitable and public bequests</td></tr> </table>	Funeral and administration expenses	Debt	Mortgages and liens	Bequest to surviving spouse	Charitable and public bequests
Funeral and administration expenses						
Debt						
Mortgages and liens						
Bequest to surviving spouse						
Charitable and public bequests						
<i>equals</i>						
Taxable Estate						
<i>plus</i>						
Adjusted Taxable Gifts						
<i>equals</i>						
Taxable Estate/Gift Base	<table style="border-left: 1px solid black; border-right: 1px solid black; padding-left: 5px;"> <tr><td>Multiplied by effective tax rate</td></tr> </table>	Multiplied by effective tax rate				
Multiplied by effective tax rate						
<i>equals</i>						
Tentative Tax						
<i>plus</i>						
Maximum of \$552,000						
Additional Tax on Estates						
<i>Over \$10,000,000</i>						
<i>equals</i>						
Total Tentative Tax						
<i>less</i>						
Allowable Unified Credit						
<i>less</i>						
Credit for State Death Taxes						
<i>less</i>						
Other Credits						
<i>equals</i>						
Net Estate Tax						

This table has been produced by
The State & Regional Fiscal Studies Unit,
University of Missouri-Columbia

Exhibit 16 Federal Unified Credit

Year of Death	Unified Credit Effective Exemption
1985	\$400,000
1986	\$500,000
1987 - 1997	\$600,000
1998	\$625,000
1999	\$650,000
2000 - 2001	\$675,000
2002 - 2003	\$1,000,000
2004	\$1,500,000
2005	\$1,500,000
2006	\$2,000,000
2007	\$2,000,000
2008	\$2,000,000
2009	\$3,500,000
2010 - Tax is Repealed	0 (taxes fully repealed)
2011	\$1,000,000 (old rules restored)

Exhibit 17 Maximum Credit for State Death Taxes¹

Adjusted Taxable Estate Equal to but Less Than	Credit on Amount in Column (1)	Rate of Credit on Excess Over Amount in Column (1)
0 - \$40,000	0	None
\$40,000 - \$90,000	0	0.8%
\$90,000 - \$140,000	\$400	1.6%
\$140,000 - \$240,000	\$1,200	2.4%
\$240,000 - \$440,000	\$3,600	3.2%
\$440,000 - \$640,000	\$10,000	4.0%
\$640,000 - \$840,000	\$18,000	4.8%
\$840,000 - \$1,040,000	\$27,600	5.6%
\$1,040,000 - \$1,540,000	\$38,800	6.4%
\$1,540,000 - \$2,040,000	\$70,800	7.2%
\$2,040,000 - \$2,540,000	\$106,800	8.0%
\$2,540,000 - \$3,040,000	\$146,800	8.8%
\$3,040,000 - \$3,540,000	\$190,800	9.6%
\$3,540,000 - \$4,040,000	\$238,800	10.4%
\$4,040,000 - \$5,040,000	\$290,800	11.2%
\$5,040,000 - \$6,040,000	\$402,800	12.0%
\$6,040,000 - \$7,040,000	\$522,800	12.8%
\$7,040,000 - \$8,040,000	\$650,800	13.6%
\$8,040,000 - \$9,040,000	\$786,800	14.4%
\$9,040,000 - \$10,040,000	\$930,800	15.2%
\$10,040,000 - Over	\$1,082,800	16.0%

¹ Based on Federal adjusted taxable estate which is the Federal taxable estate reduced by \$60,000. The maximum credit for state death taxes has been reduced to 75% of the previously allowed amount for decedents dying in 2002. The maximum credit for state death taxes has been reduced to 50% of the previously allowed amount for decedents dying in 2003. The maximum credit for state death taxes has been reduced to 25% of the previously allowed amount for decedents dying in 2004.

Exhibit 18 Derivation of Missouri Estate Tax

Prior to 2005	2005 and later
Federal Credit for State Death Taxes	No Estate Tax
<i>less</i>	
Other State Estate Taxes	
<i>equals</i>	
Missouri Estate Tax	