

**IMPACT OF THE INCREASING FEDERAL
TAXABLE ESTATE THRESHOLD
&
OPTIONS FOR REPEALING THE VIRGINIA
ESTATE TAX**

**Virginia Department of Taxation
July 29, 2002**

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INCREASES IN THE FEDERAL TAXABLE ESTATE THRESHOLD

◆ Under federal legislation enacted in 2001, the threshold of the federal taxable estate is increased to \$1 million for 2002 and 2003 and to \$1.5 million for 2004 and 2005. Prior to this legislation, the threshold would have been \$700,000 for 2002 and 2003, \$850,000 for 2004 and \$950,000 for 2005.

- Virginia revenues will be affected by the federal increase in the threshold for taxable estate. The following is the estimated impact on Virginia revenues:

Fiscal Year	Impact
2003	(\$8.6 million)
2004	(\$11.5 million)
2005	(\$16.2 million)
2006	(\$15.0 million)

OPTIONS FOR THE REPEAL OF THE VIRGINIA ESTATE TAX

- ◆ Federal law reduces the credit for state death taxes to 75 percent of the maximum credit for 2002, 50 percent for 2003, 25 percent for 2004, and eliminates the credit for subsequent years. However, Virginia law currently freezes the credit at the maximum amount allowed by the Internal Revenue Code on January 1, 1978.
 - The estates of Virginia decedents dying between January 1, 2002 and December 31, 2004 would pay the Virginia estate tax at the 1978 rates, but would receive a partial credit for this tax in the federal estate tax return; and
 - The estates of Virginia decedents dying on and after January 1, 2005, would pay the Virginia estate tax at the 1978 rates until the entire federal estate tax is repealed in 2010.
- ◆ If Virginia repeals the Virginia estate tax effective for deaths on or after January 1, 2004, the estimated revenue impact would be as follows:

Fiscal Year	Impact
2005	(\$97.7 million)
2006	(\$129.8 million)

- ◆ If Virginia repeals the 1978 freeze date language for deaths on or after January 1, 2003, the estimated revenue impact would be as follows:

Fiscal Year	Impact
2004	(\$47.8 million)
2005	(\$87.7 million)
2006	(\$119.5 million)