REVENUE IMPACT OF PROPOSED LEGISLATION

82nd Oregon Legislative Assembly
2023 Regular Session
Legislative Revenue Office

Bill Number:	**SB 498 - 4**
Revenue Area:	**Estate Tax**
Economist:	**Jonathan Hart**
Date:	**5/31/2023**

Only Impacts on Original or Engrossed Versions are Considered Official

Measure Description:

Creates an exclusion from the Estate Tax for any interest in natural resource property that is held by a decedent for at least five years prior to death and is transferred, at the time of death to one or more family members of the decedent. Requires material participation of a family member 75% of each year five years prior to decedent's death and five years after. Reimposes tax eliminated by the exclusion if the property is sold or transferred to a person other than a family member in the five calendar years after the decedent's death or if material participation requirement is not met. Allows estates to claim an exclusion of up to $15 million of natural resource property value and prohibits claiming the existing Natural Resource Credit if they claim such exclusion. Applies to the estates of decedents dying on or after July 1, 2023.

Revenue Impact (in $Millions):

	Fiscal Year			Biennium		
	2023-24	2024-25		2023-25	2025-27	2027-29
General Fund - Estate Tax	**- $0.6**	**- $7.4**		**- $8.0**	**- $15.5**	**- $16.4**

Impact Explanation:

The measure creates an option for estates with natural resource property to claim either the existing Natural Resource Credit, or the new exclusion. The exclusion is more favorable due to reduced requirements for ownership and business-use of qualifying property, an increased maximum value of qualifying property, and an elimination of the maximum total value of property in estates that qualify. The revenue impact includes the reduction in tax that is expected for estates that use the exclusion and would have claimed the credit, as well as estates that use the exclusion but would not have claimed the credit.

Currently about 50 to 60 estates use the credit each year. The average tax reduction to those that qualify for the credit will increase with the exclusion both because the exclusion provides a greater benefit for a given value of property, and because the ownership and business-use requirements for claimed property will increase the value of property those estates claim. Based on estate tax returns, it is estimated the total reduction in tax for estates in 2024 that would otherwise claim the credit would be $1.6 million with the exclusion in addition to the reduction they would get if only the credit were available.

Based on property value statistics as well as income and wealth statistics for farm, forest, and fishing property owners, it is estimated that each year about 170 Oregon estates that owe estate tax have some natural resource property but are not currently using the credit because of current value limitations or ownership and business-use requirements. Such estates are estimated to have reduced tax under the new exclusion of about $5.9 million for 2024. The revenue estimate for estates that don't currently use the credit are adjusted based on statistics for length of ownership for family farms and the amount of farmland owned by non-farmer landlords.

The due date for estate tax payments is 12 months after death of the decedent. Growth in the revenue impact each year is based on growth in the number of estates, and in the value of natural resource property. The growth estimates primarily rely on forecasts developed the Office of Economic Analysis including deaths in the Oregon population forecast as well as the estate tax collections forecast.

Creates, Extends, or Expands Tax Expenditure: Yes ☒ No ☐

The policy purpose of this measure is to alleviate the need for estates with natural resource property to sell assets to pay estate tax, facilitating the passage of property ownership to family members.

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