

AG FACTS

UPDATE

Michigan Estate Tax

(Formerly Michigan Inheritance Tax)

Ralph E. Hepp and Myron P. Kelsey
Department of Agricultural Economics

The death tax law in Michigan has been changed from an inheritance tax to an estate tax. It was passed by the Michigan legislature as Act. No. 54, Public Acts of 1993 and went into effect on October 1, 1993.

Estate Tax Provisions

There are two fundamental changes in how Michigan applies the death tax.

First, the taxation of property from a decedent is based on the *total estate* of the decedent rather than on the inheritance that an heir receives.

Second, the rules for the tax are no longer defined in state legislation but are detailed in the Federal Estate and Gift Tax law (see MSUE Bulletin E-1231, "Federal Estate and Gift Taxes.")

Michigan, like most other states, is taxing estates at the maximum allowable federal credit for state death taxes.

Credit for State Death Taxes

There is no obligation to file a Federal Estate Tax return (no tax would be due) unless the gross estate is over \$600,000.

Even if the estate is required to file a return, it may not be taxable if debts, expenses, deductions and other allowable exemptions reduce the adjusted gross estate to under \$600,000. (The law allows a tax credit of \$192,800 for the lifetime gifts and death time transfers. See MSUE Bulletin E-1231 for details.)

If a federal estate tax is due, the state tax credit — the amount due in taxes to the state — is calculated by subtracting \$60,000 from the taxable estate. The resulting value is used to determine the state death tax credit (see Table 1).

If the decedent's taxable estate does not exceed \$40,000, the credit is zero. If the decedent's taxable estate does exceed \$40,000, the credit for state death taxes is taxed at 8/10 of 1 percent for the next \$50,000. Rates increase up to 16 percent for adjusted taxable estates over \$10 million. (see Table 1).

An Example

The decedent died on January 10, 1994, leaving a taxable estate of \$860,000. Subtract the state tax credit of \$60,000, to obtain \$800,000.

Based on Table 1, the state tax credit for that amount is 4.8 percent times \$160,000 (\$800,000 less \$640,000) or \$7680.

Add \$18,000 (see Column C), to obtain \$25,680. This amount is taken as a credit against the \$98,400 of federal estate tax which is determined from the Federal Estate and Gift Tax rate schedule.

The \$25,680 is paid to the Michigan Department of Treasury. The remainder amount of the federal tax, \$72,720 (\$98,400 minus \$25,680) is sent to the Internal Revenue Service.

Filing Requirements

The personal representative of the estate is required to file a copy of the Federal Estate Tax return with Michigan and pay the state tax due, along with the payment of the federal tax. Unless extensions are obtained to delay the filing and paying of the tax, federal law requires the return to be filed within nine months after the decedent's death.)

TABLE 1. Maximum Credit for State Death Taxes

(A) Taxable estate equal to or more than —	(B) Taxable estate less than —	(C) Credit on Amount in Column (A)	(D) Rates of credit on excess over amount in Column (A)
			Percent
\$ 40,000	\$ 90,0008
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	1,082,800	16.0



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