Measure U415

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INSTRUCTIONS:
Please carefully read the following description of a ballot measure that was written by a disinterested expert. Feel free to take notes or outline passages as you read.

This should take you approximately 5 minutes.

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BALLOT MEASURE U415

BACKGROUND

California has levied a tax on inheritances since 1893 and a tax on gifts since 1939. The state's inheritance tax is a tax on the right to receive or inherit property, and is based on the value of the inheritance received by each heir or beneficiary. This is in contrast to the federal tax on estates left by deceased persons. The federal tax is based on the total value of the decedent's estate, regardless of how many beneficiaries there are.

The state's gift tax is a tax on the value of gifts and transfers made by an individual, and is based on the amount received each year by each recipient. The last major revisions in the State Inheritance and Gift Tax Laws were enacted in 1980 (Chapter 634). Chapter 634 applies to (1) the estates of persons who die, or (2) gifts made, on or after January 1, 1981. It made the following changes in the Inheritance and Gift Tax Laws:

1. It generally exempts from inheritance and gift taxes all property transfers between spouses. Under prior law, gifts or inheritances in excess of $60,000 were subject to taxation, with certain exclusions.

2. It increases the amount of an inheritance or gift which is exempt from taxation, for all other classes of beneficiaries, as shown in Table 1.

3. It allows qualified farms and closely held businesses, under certain conditions, to be valued on the basis of their current use, rather than their fair market value as under prior law.

4. It allows an estate to be distributed to the heirs or beneficiaries before the tax due on it has been collected. Under prior law, estates generally could not be distributed until the tax had been paid.

Chapter 634 did not change either the tax brackets or tax rates for the inheritance and gift taxes. The tax rates, which arc the same for both the inheritance and gift taxes, range from 3 percent to 24 percent, depending on the value of the property and beneficiary class. Class A beneficiaries (a son or daughter) are subject to the lowest tax rates, which range from 3 percent on transfers of up to $25,000 to 14 percent on transfers valued over $400,000. Class C beneficiaries (a nonrelative) are

subject to the highest tax rates, which range from 10 percent on transfers up to $25,000 to 24 percent on transfers valued over $400,000.

PROPOSAL

Inheritance and Gift Tax. This measure would (1) repeal the current Inheritance and Gift Tax Laws and (2) prohibit the imposition of any gift tax or inheritance tax (except for the "pickup" tax discussed below) on any transfer of property made on or after January 1, 1981. However, according to Legislative Counsel, this measure could not become effective until the day after it is approved by the voters. Thus, if this measure were approved at the June 1982 primary election, it would be effective only in the case 'of deaths occurring or gifts made on or after its effective date (the day after the election).

California Estate ("Pickup") Tax. Under the Federal Estate Tax Law a taxpayer can reduce his or her tax liability, up to certain limits, by the amount of taxpayer's state death tax liability.

This measure would require the state to levy a California estate tax (sometimes called "pickup tax") equal to the maximum federal credit allowable. This measure also would require the Legislature to provide for the collection and administration of that tax. The effect of this provision would be to provide the state a portion of the estate taxes which would otherwise go to the federal government. A taxpayer's total combined state and federal tax would not be increased under this provision, because the California estate tax would be offset against the federal tax.

STOP!

Please go to the online survey, enter the 4-character code for this ballot measure (printed at the top and bottom of this page) and answer the survey questions.