

A look at current state tax issues

BY JAMES CARROLL

How will repeal of the federal estate tax affect states?

President Bush's tax plan calls for the elimination of the federal estate and gift tax over the next decade. A repeal of the federal tax would effectively rescind most states' estate taxes and significantly affect state fiscal affairs.

In 38 states and the District of Columbia with death taxes, estates need to pay only the state taxes. This is because there is a dollar-for-dollar credit against the federal estate tax for the state tax up to a certain amount. In essence, these states levy no additional burden on the taxpayer. Repeal of the federal tax will repeal the state tax as well in these states.

States collected \$7.5 billion in death taxes in fiscal year 1999, amounting to 1.5 percent of all tax collections. The estate-tax portion of all state tax collections varies from a high of 4.6 percent in New Hampshire to 0.2 percent in Alaska and Utah. The jurisdictions with pick-up taxes will lose almost \$4 billion if the federal tax is repealed. The 10 states with separate state inheritance or estate taxes will not lose revenue immediately (Indiana, Iowa, Kentucky, Maryland, New Hampshire, New Jersey, Ohio, Oklahoma, Pennsylvania and Tennessee).

Although separate estate taxes in 10 states would remain in effect following a federal repeal, states have traditionally followed the lead of the federal tax law. Practically then, the remaining state tax estate taxes also are likely to vanish soon.


Which states have sales-tax holidays?

Seven states offer sales-tax holidays as a break to working families. First introduced in New York in 1997, these laws offer consumers tax-free buying power on certain merchandise for select periods of time, usually during the back-to-school shopping period. The holidays also seek to lure shoppers from neighboring states.

Last year, Connecticut, Florida, Iowa, New York, Pennsylvania, South Carolina and Texas offered tax holidays, while Maryland is slated to implement the program this year, according to the Federation of Tax Administrators.

The scope and duration of the tax holidays varies by state. New York exempts any clothing purchase under \$110 throughout the year, but the remaining states offer a sales-tax break for a period of between two days and two weeks on a variety of items. Clothing, footwear and accessories are among the items listed in the laws, while Pennsylvania and South Carolina also exempt computer purchases during their holidays.

Not all states like the idea. The legislatures in Kansas, Michigan, Ohio, Oklahoma and Virginia recently voted down similar laws. Some critics argue that the programs do not attract additional shoppers, while others cite the considerable expense and administrative burden of the programs.



Repeal of the federal estate tax will cause a loss of state revenues.

Which states exempt prescription drugs from sales taxes?

Paying for prescription drugs is a problem for many Americans and drug costs are highly debated in state government. To help people afford medications that are vital for life, most states offer a sales-tax exemption on prescription drugs.

All but one of the 45 states with a sales tax and the District of Columbia exempt prescription drugs. Only Idaho levies a sales tax on prescription drugs; however, its tax rate is only 1 percent. Furthermore, eight states and the District of Columbia offer a sales-tax exemption on nonprescription drugs as well. These states are Florida, Maryland, Minnesota, New Jersey, North Carolina, Pennsylvania, Rhode Island and Virginia.

Part of the above tax data was provided by the Federation of Tax Administrators. For more information regarding this issue or others, contact the States Information Center at (888) CSG-4SIC or sic@csg.org.

James Carroll is Southern regional coordinator with CSG's States Information Center.