



CALIFORNIA'S PROPOSED ESTATE TAX FAILS IN SENATE  
WILL NOT, FOR NOW, MAKE IT TO THE 2020 BALLOT

California State Senator Scott Weiner recently introduced Senate Bill 378, which would impose gift, estate, and generation-skipping taxes on all transfers after December 31 2020. Currently, California residents are only subject to the Federal Estate tax thanks to Propositions voters passed many years ago which prohibited the state of California as well as any local governments or municipalities from imposing inheritance taxes.

California Law requires that this new bill must first pass the state legislature, then be approved by voters. The estimated \$1 billion in tax revenues from this new bill would go towards addressing socio-economic inequality and assisting low income families. The new law would set a tax rate equivalent to the federal transfer tax rates and brackets with the top bracket of your taxable estate at 40%. The new state tax would be deductible from your federal transfer tax to prevent double taxation on your estate at the state and federal level. However, the federal estate tax allows you to have up to \$11.4 million exempt, scaled for inflation, whereas the new state tax will reset the exemption amount to the 2009 level before Trump increased the estate tax exemption. The new exemption, under Senate Bill 378, is \$3.5 million, not scaled for inflation, which means that the new bill would affect people whose net assets are more than \$3.5 million. Additionally, it noticeably does not include a marital deduction in its text, which might be a mistake given the short time frame in which this bill was written.

Current exemptions under the federal estate tax law also apply to the state estate tax law(i.e. transfers to a spouse or family farm exemptions), which means that the bill functionally overturns Trump's new tax exemption amount increase and resets it to Obama-era amounts. As of May 22, The State Senate voted to reject SB378, with Senate budget Committee Chair Holly Mitchells stating, "We've just got to figure out where else to get that money from".

As of the June 15 budget deadline, The State Senate has not approved the bill amidst concerns that lowering the estate tax exemption would increase the already growing numbers of people leaving California to go to other states with more lenient tax policies. The bill remains in limbo and is pending in the Senate Rules Committee. Since it has not been approved before the budget deadline, it is safe to assume that it will not be enacted in this fiscal year. However, it is a possibility that future variations of a state estate tax may arise, but California law mandates that such proposals would still need to be approved by a supermajority in the state senate and also be approved by voters in an election. Additionally, multiple Democratic candidates in the 2020 elections have expressed their desire to lower the estate tax exemption, which is a potential risk to watch out for in the upcoming elections.

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