



PRIVATE TAXPAYER RULING LR03-010

Janet Napolitano
Governor

J. Elliott Hibbs
Director

September 25, 2003

The following private taxpayer ruling is in response to your letters dated January 13, 2003 and February 28, 2003. Your letters request a determination regarding the application of the federal estate tax credit for taxes paid on prior transfers in determining the Arizona estate tax for the Estate of (Taxpayer), Deceased.

The following is a restatement of the facts as presented in your letter.

Statement of Facts:

(Taxpayer) died Pertinent facts from (Taxpayer's) estate tax return are as follows:

Gross Estate	\$ 1,348,172
Deductions	\$ 190,500
Taxable Estate	\$ 1,157,672
Gross Federal Estate Tax	\$ 64,646
Indicated Credit for State Death Taxes	\$ (31,868)
Federal Tax Before Credit for Prior Transfers	\$ 32,778
Federal Credit for Prior Transfers	\$ (26,222)
Net Federal Tax	\$ 6,556
Combined Federal and Arizona Tax	\$ 38,424

(Taxpayer) received an inheritance from (Parent), who died (three years prior). The gross value of the transfer in (Parent's) estate as received by (Taxpayer) was \$2,986,552 with this transferee being charged with \$1,148,907 of federal estate taxes and \$303,530 of Arizona estate taxes. Therefore, a federal estate tax credit for taxes paid on prior transfers is available to (Taxpayer's) estate.

Discussion:

Since the death of (Parent) occurred more than two years, but less than four years, after the death of the transferor, the federal credit for taxes paid on prior transfers is limited to 80% of the maximum allowable credit. The maximum allowable federal credit for taxes paid on prior transfers for (Taxpayer's) estate will depend on whether an Arizona estate tax

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is imposed. If an Arizona estate tax is imposed, the tax liability of the estate will be as indicated in the statement of facts. However, if an Arizona estate tax is not imposed, the tax liability will be determined as follows:

Gross Federal Estate Tax	\$	64,646
Credit for State Death Taxes	\$	(0)
Federal Tax Before Credit for Prior Transfers	\$	64,646
Federal Credit for Prior Transfers	\$	(51,717)
Net Federal Tax	\$	12,929

If the Arizona estate tax is imposed, the combined federal/Arizona estate tax liability will be \$38,424. If the Arizona estate tax is not imposed, the combined federal/Arizona estate tax liability will be \$12,929. Therefore, imposition of the Arizona estate tax will result in an increase in the combined federal/Arizona estate tax liability.

The Arizona estate tax is a form of state death tax commonly referred to as a "pick-up" tax. Such state tax statutes do not increase the amount of combined federal and state tax liability, but merely authorize the state to share in the federal estate tax to the extent of the allowable federal credit for state death taxes. The intent of the Arizona estate tax is to "pick-up" the maximum allowable federal credit for state death taxes without increasing the combined federal/state estate tax liability.

Under the overall scheme of estate taxation imposed by the federal government and the Arizona legislature, the federal credit for taxes paid on prior transfers may be taken into account in determining the Arizona estate tax liability of an estate. When the federal credit for taxes paid on prior transfers is applicable, there is no Arizona estate tax liability if the Arizona estate tax results in an increase of the combined federal/Arizona estate tax liability.

Conclusion and Ruling:

On the basis of the information provided, we rule that the Estate of (Taxpayer), Deceased has no Arizona estate tax liability because the imposition of the Arizona estate tax, in conjunction with the federal credit for taxes paid on prior transfers, will result in an increase of the combined federal/Arizona estate tax liability.

The conclusion in this private taxpayer ruling does not extend beyond the facts as presented in the request for a private taxpayer ruling by letters dated January 13, 2003 and February 28, 2003.

This response is a private taxpayer ruling and the determinations herein are based solely on the facts provided in your request. The determinations are subject to change should the facts prove to be different on audit. If it is determined that undisclosed facts were substantial or material to the department's making of an

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accurate determination, this taxpayer ruling shall be null and void. Further, the determination is subject to future change depending on changes in statutes, administrative rules, case law or notification of a different department position.

The determinations in this private taxpayer ruling are only applicable to the taxpayer requesting the ruling and may not be relied upon, cited nor introduced into evidence in any proceeding by a taxpayer other than the taxpayer who has received the private taxpayer ruling.

Lrulings/03-010-D