



INFORMATIONAL NOTICE – INHERITANCE TAX 2014-01

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Act 85-2012 created two exemptions from inheritance tax, effective for estates of decedents dying after June 30, 2012. The first exemption applies to transfers of real estate devoted to the business of agriculture between “members of the same family”, as long as the real estate continues to be used for the business of agriculture for at least seven years after the decedent’s date of death, and derives income of at least \$2,000 annually. The second exemption applies to the transfer of an agricultural commodity, real estate subject to an agricultural conservation easement, agricultural reserve property, agricultural use property or forest reserve property to lineal descendants or siblings. Please see Inheritance Tax Information Notice 2012-01 for details.

Act 52-2013 created an exemption from inheritance tax for the transfer of a family-owned small business interest to one or more “qualified transferees”, effective for estates of decedents dying after June 30, 2013. The exemption applies if the interest continues to be owned by a “qualified transferee” for seven years after the decedent’s date of death, and was reported on a timely filed inheritance tax return. Qualified family owned businesses are defined as having fewer than 50 full time equivalent employees, a net book value of assets less than \$5 million, being in existence for at least 5 years, and the principle purpose of the entity is not the management of investments or income-producing assets.

The Act 85 agricultural exemptions apply specifically to transfers between individuals, and do not extend to real estate held in business entities. However, a decedent’s interest in such an entity may qualify for exemption as a qualified family owned business interest under Act 52 instead.

However, because the effective dates of Act 85 and Act 52 are one year apart, there is a period of one year during which family farm estates may qualify for the Act 85 exemptions but not for the Act 52 exemption. For estates of decedents dying after June 30, 2013, both exemptions are effective and one or both of them should apply to most family farm estates. Estate representatives should carefully consider the available exemptions, and may contact the Department for assistance.

CONTACT INFORMATION

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