Millionaire Estate Tax Supports Maryland Economy; Family Farms Protected

By Benjamin Orr

The estate tax is a small but important part of Maryland's revenue system. It raised $182 million in Fiscal Year 2013.[1] The money goes toward schools, hospitals, safe communities, and many essential services across the state that help create jobs and build a strong economy.

The estate tax helps make sure the very wealthiest Marylanders pay their fair share. However, in 2014 lawmakers phased in a considerably weaker estate tax over the next five years. While Maryland used to ask the top 3 percent of estates to pay the tax, now only estates with assets greater than $2 million pay the 16 percent estate tax, eventually rising to $6 million in 2019. Once fully implemented, just 0.6 percent of estates will pay the Maryland estate tax. [2]

Unfortunately, the estate tax is again under attack in Annapolis and there continue to be many misconceptions floating around about who pays. Here are the facts:

- No money or property a surviving spouse inherits is subject to Maryland estate tax.
- Estates can receive a credit against the estate tax for any inheritance tax paid. Note that the inheritance tax of 10 percent does not apply to property transferred to lineal heirs (parents, children, etc.), siblings, or domestic partners.
- Estates that include farms benefit from several aspects of current law. First, agricultural property receives a larger exemption, up to $5 million. Second, agricultural property pays a much lower rate than other property—five percent. Third, qualified heirs can defer paying the estate tax on property for three years so long as it remains in agricultural use. There are no verifiable cases of family farms lost due to the estate tax.

Finally, it should be stated clearly that millionaires are not fleeing the state to escape taxes. Nationwide research has shown that elderly taxpayers—those most affected by the estate tax—do not move from state to state because of tax policy.[3] In fact, research suggests that the reverse may be true; that tax policy changes only after large numbers of the elderly move into a state.[4]

- Maryland has the highest median income in the country.[5]
- Maryland has the most millionaires of any state on a per household basis. In fact, the share of millionaire households has been growing, to 7.7 percent in 2013 from 6.2 percent in 2006 (note that the share of estates

paying the estate tax is much lower than this, as high net worth households use the intricacies of the tax code to their advantage).[6]

- Maryland has a high concentration of ultra-high net worth individuals (those worth more than $30 million). The state ranked 12th in number of ultra-high net worth individuals in 2013, even though it only ranks 19th in total population.[7]
- Families and individuals appreciate the benefits of living in Maryland, such as our excellent schools, hospitals, and recreational opportunities. These factors weigh much more heavily in location decisions than taxes. Furthermore, when households do leave the state, often after retirement in search of warmer climates, they frequently return to the state as members age to be closer to family and take advantage of Maryland's excellent health care.
- There were fewer millionaire tax returns in recent years—because high-income households are more dependent on investment income, which declined during the recession. High-income households did not flee the state. They merely experienced a decline in income due to larger economic conditions. While there were 11.4 percent fewer millionaire Maryland tax returns in 2011 (the most recent data available) compared to their peak in 2007, nationally millionaire tax returns declined 23 percent over the same period.[8] [9]Millionaires in Maryland were actually better off than the national average. The S&P 500 has rebounded more than 40 percent since 2011; high-income households likely fared similarly.

Proposals to speed up implementation of the 2014 giveaway to Maryland's largest estates would deprive the state of resources needed to promote widespread prosperity, while benefiting a small group of high net worth individuals. Some proposals would cost the state as much as $100 million in the next budget. Maryland cannot afford this backward step.

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[1] Board of Revenue Estimates. December 2013. p. 25. Available from: http://finances.marylandtaxes.com/static_files/revenue/BRE_reports/FY_2014/2013_BRE_December_Report.pdf

[2] Maryland Department of Legislative Services, "Fiscal and Policy Note for House Bill 739, Maryland General Assembly 2014 Legislative Session, http://mgaleg.maryland.gov/2014RS/fnotes/bil_0009/hb0739.pdf

[3] Conway and Rork. (June 2012). "No Country for Old Men (or Women): Do State Tax Policies Drive Away the Elderly?" *National Tax Journal*. pp 313-356.

[4] Rork, J. (2 October 2012).The myth of Measure 84: Searching for sunshine by eliminating the estate tax. The Oregonian. Available from: http://www.oregonlive.com/opinion/index.ssf/2012/10/the_myth_of_measure_84_searchi.html

[5] U.S. Census Bureau, American Community Survey 2012. Table B19013

[6] Phoenix Marketing International. 2013. "Ranking of U.S. States By Millionaires Per Capita" *Global Wealth Monitor: Affluent Market Intelligence*. Available from: http://w3.phoenixmi.com/wp-content/uploads/2014/01/Phoenix-GWM-U.S.-Ranking-States-By-Millioinaires-Per-Capita-2006-13.pdf

[7] Wealth-X. 2013. World Ultra Wealth Report. Available from: http://www.wealthx.com/wealthxubswealthreport/#wealthreport

[8] Comptroller. Personal Income Tax Statistics of Income. Table 1. Available from: http://finances.marylandtaxes.com/Where_the_Money_Comes_From/General_Revenue_Reports/Statistics_of_Income_Reports/Personal_Statistics_of_Income_Reports.shtml

[9] Internal Revenue Service. Statistics of Income. Available from: http://www.irs.gov/uac/SOI-Tax-Stats---Individual-Statistical-Tables-by-Size-of-Adjusted-Gross-Income

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