

Raising the estate tax exemption increases inequality, harms Maryland's economy

Given before the Senate Budget and Taxation Committee

The Maryland Center on Economic Policy opposes Senate Bill 602

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. But the role of the estate tax as a source of revenue in Maryland will be diminished by Senate Bill 602.

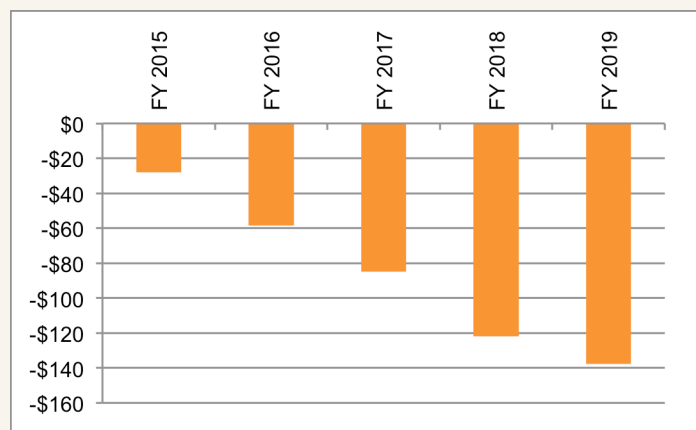
Increasing the amount of wealth that can be excluded from estate tax liability determination would reduce the amount of revenue that Maryland collects from the estate tax. The

current exclusion amount is \$1 million, but under Senate Bill 602, this amount would steadily increase until 2017, when it would equal the amount excluded under the federal estate tax. The federal estate tax exclusion amount rises with inflation, and is estimated to be \$5.4 million in 2015 and \$6.1 million in 2020.² According to analysis by the Department of Legislative services, the amount of revenue that the state would lose as the exclusion amount gradually increases to the amount excluded under the federal estate tax exceeds \$430 million between Fiscal Year 2015 and Fiscal Year 2019.³

The estate tax impacts a relatively small number of wealthy residents. Only estates with assets greater than \$1 million pay the estate tax. According to the Department of Legislative Services, 93 percent of Maryland estates are not even required to file an estate tax return, while fewer than 3 percent of estates have any estate tax liability.⁴

There are already numerous limitations written into the estate tax that limit the amount of Maryland decedents with estate tax liability. 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, and the inheritance tax of 10 percent does not apply to property transferred to lineal heirs (parents, children, etc.), siblings, or domestic partners.

SB 602 WOULD REDUCE GENERAL FUND REVENUES



Source: Maryland Department of Legislative Services

Estates which include farms further benefit from several aspects of current law. First, agricultural property receives a much 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 being lost due to the estate tax.

The estate tax helps make sure the very wealthiest Marylanders pay their fair share. Maryland has the highest median income in the country, and 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 2006.⁵ ⁶ A modest tax on the intergenerational transfer of wealth among the most well-off residents of the state is a reasonable way to raise revenue to pay for public services and investments that benefit all Marylanders. Instead, Senate Bill 602 would deprive the state of resources needed to promote widespread prosperity, while benefiting a small group of high net worth individuals.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Taxation Committee give an unfavorable report to Senate Bill 602.

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 Senate Bill 602, Maryland General Assembly 2014 Legislative Session, http://mgaleg.maryland.gov/2014RS/fnotes/bil_0002/sbo602.pdf

³ Ibid.

⁴ Ibid.

⁵ 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-Millionaires-Per-Capita-2006-13.pdf>

⁶ U.S. Census Bureau, American Community Survey 2012. Table B19013