

Freezing the estate tax exemption would increase equality, help Maryland's economy

Given before the Senate Budget and Taxation Committee

The Maryland Center on Economic Policy supports Senate Bill 661

The estate tax exemption should be frozen at \$1.5 million—a level which exempts more than 97 percent of estates—to support Maryland's revenue system and economy. 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 went towards schools, hospitals, safe communities, and many essential services across the state that helped create jobs and build a strong economy. The role of the estate tax as a source of revenue in Maryland needs to be restored through Senate Bill 661.

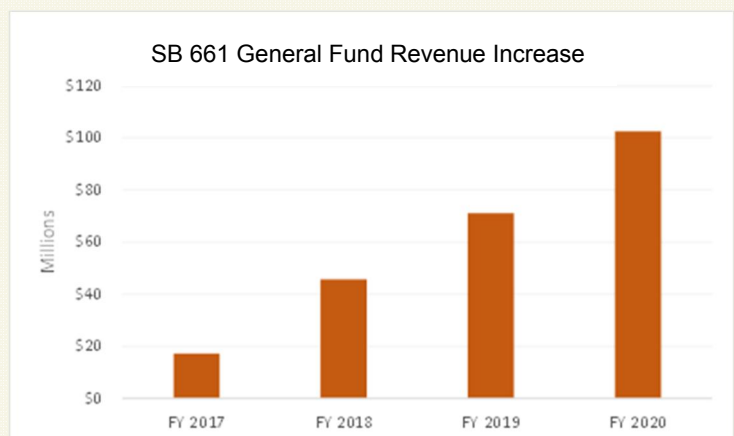
Freezing the amount of wealth that can be excluded when determining estate tax liability would restore the amount of revenue that Maryland collects from the estate tax. The

current exclusion is \$1.5 million, but it is set to steadily increase until 2019, when it would equal the amount excluded under the federal estate tax. The federal exclusion amount rises with inflation, and is estimated to be \$5.9 million by 2019.² The state would lose more than \$236 million as the exclusion amount gradually increases to the federal level between Fiscal Year 2017 and Fiscal Year 2020, according to the Department of Legislative services.³

The estate tax is paid by a relatively small number of wealthy residents. Only estates with assets greater than \$1.5 million pay the estate tax. Fully 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, the Department of Legislative Services has found.⁴

There are already numerous other limitations written into the Maryland estate tax. No money or property a surviving spouse inherits is subject to the tax. If heirs pay a separate inheritance tax, estates receive a credit for

SB 661 WOULD INCREASE GENERAL FUND REVENUES



Source: Maryland Department of Legislative Services

that tax that lowers the amount of estate tax they owe. And the 10 percent inheritance tax does not apply to property transferred to parents, children and other lineal heirs; siblings; or domestic partners. Estates that 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 is taxed at a much lower rate than other property — 5 percent versus 15 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 best-off residents of the state is a reasonable way to pay for public services and investments that benefit all Marylanders. Senate Bill 661 would protect an important pool of resources needed to promote widespread prosperity.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Taxation Committee give a favorable report to Senate Bill 661.

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 661, Maryland General Assembly 2015 Legislative Session, http://mgaleg.maryland.gov/2015RS/fnotes/bil_0001/sbo661.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