Accelerating Millionaire Estate Tax Exemption Could Harm State Services

Position Statement Opposing Senate Bill 847

Given before the Senate Budget and Tax Committee

The estate tax helps make sure the very wealthiest Marylanders pay their fair share and it applies to less than 3 percent of estates. Phasing out the estate tax simply means the scions of multimillionaires will get to keep a little more of their inheritance. Phasing it out sooner will not provide any economic benefits to the state, but will come at a cost to the public good. For these reasons, the Maryland Center on Economic Policy opposes Senate Bill 847.

When the General Assembly exempted the families of multimillionaires from paying the estate tax, Maryland lost a small but important source of revenue to support schools, hospitals, safe communities, and other essential services across the state that help create jobs and build a strong economy. 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, a benchmark that will rise to $6 million by 2019. Once fully implemented, just 0.6 percent of estates will pay the Maryland estate tax.

The estate tax raised $243.4 million in fiscal year 2015.[1] Increasing the exemption amount immediately would mean revenues would likely go down by at least $100 million in the next fiscal year, a drop that will harm the state services that all Marylanders count on. The best policy would be to reverse the 2014 decision and freeze the estate tax exemption at $2 million – a level that still exempts more than 97 percent of estates. At a minimum, the state should not make the problem worse by speeding up the phased approach, forcing unnecessary cuts in state services.

Most Maryland families will never pay the estate tax. Only estates with assets greater than $2 million would pay the estate tax today, and larger estates only owe taxes on the amount above $2 million. More than 93 percent of Maryland estates are not even required to file an estate tax return, while fewer than 3 percent of estates have to pay any taxes on the estate, the Department of Legislative Services has found.

In addition, there are several provisions to protect families from undue hardship. 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 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 families losing a farm due to the estate tax.

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. If the General Assembly won't reverse the 2014 decision, it should at least not make the problem worse by adopting Senate Bill 847, which would immediately take away a pool of resources needed to promote widespread prosperity.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Budget and Tax Committee give an unfavorable report to Senate Bill 847.

[1] Board of Revenue Estimates. December 2015. p. 12. Available from: http://finances.marylandtaxes.com/static_files/revenue/BRE_reports/FY_2016/2015_BRE_December_Report.pdf