

MARCH 1, 2017

# Taxing Inherited Wealth is a Reasonable Way to Support Public Services

## Position Statement Opposing House Bill 1331

Given before the House Ways and Means Committee

Taxing income – whether it comes from working, an inheritance, or winning the lottery – has long been a key component of the way Maryland pays for the public services we all benefit from, like schools, roads, and emergency services. In this same vein, some property that passes from one person to another after the death of an individual is subject to an inheritance tax. In the most common scenarios of passing on property to an immediate family member or to a business, people who inherit property are not subject to the tax. Children, stepchildren, parents, grandparents, spouses, siblings, and other lineal descendants are all exempt from the tax. Businesses are also exempt if all owners or stockholders are beneficiaries.

The inheritance generates a small but important portion of state revenues, projected to be \$52.4 million in fiscal year 2018.<sup>i</sup> These revenues are primarily used to fund the register of wills; any additional revenues go to the general fund to support things like education and health care. Maryland's inheritance tax ensures that those with the means to do so pay their fair share to support public services. Existing limitations ensure the tax doesn't harm families; for example, very small estates are not taxed. For these reasons the Maryland Center on Economic Policy opposes House Bill 1331.

Repealing the inheritance tax would eliminate revenues that cover administrative expenses for the registers of wills. The register of wills in each county incurs a variety of expenses related to the administration of a decedent's estate. Without dedicated revenue, money would need to shift from other parts of the budget to cover the department's expenses. The Department of Legislative Service estimates that as a result of repealing the inheritance tax, general fund expenditures would increase by \$17.3 million to make up the difference.<sup>ii</sup>

Despite claims that the inheritance tax in Maryland is causing large numbers of wealthy elderly taxpayers to flee the state, data shows this is not the case. In 2016, Maryland had the most millionaires of any state on a per household basis.<sup>iii</sup> In fact, the share of millionaire households has been growing, up to 8 percent in 2016 from 6.2 percent in 2006.<sup>iv</sup>

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.<sup>v</sup>

The inheritance tax is a reasonable fee assessed to a small number of wealth transfers. Close family members are not affected at all, and the funds raised cover the costs of administering the register of wills. Repealing Maryland's inheritance tax would not significantly affect older residents' decisions to stay in the state and would make it harder for the state to meet its needs.

**For these reasons, the Maryland Center on Economic Policy respectfully requests that the Senate Finance Committee give an unfavorable report to House Bill 1331.**

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<sup>i</sup> House Bill 563 Fiscal and Policy Note." Maryland General Assembly 2017 Session.  
[http://mgaleg.maryland.gov/2017rs/fnotes/bil\\_0003/hbo463.pdf](http://mgaleg.maryland.gov/2017rs/fnotes/bil_0003/hbo463.pdf).

<sup>ii</sup> "House Bill 1331 Fiscal and Policy Note." Maryland General Assembly 2017 Session.  
[http://mgaleg.maryland.gov/2017RS/fnotes/bil\\_0001/hb1331.pdf](http://mgaleg.maryland.gov/2017RS/fnotes/bil_0001/hb1331.pdf)

<sup>iii</sup> "Millionaires by State Ranking 2016." Phoenix Marketing International.  
<http://store.phoenixmi.com/pages/millionairesbystateranking2016>.

<sup>iv</sup> Phoenix Marketing International. 2013. "Ranking of U.S. States By Millionaires Per Capita" Global Wealth Monitor: Affluent Market Intelligence. <http://w3.phoenixmi.com/wpcontent/uploads/2014/01/Phoenix-GWM-U.S.-Ranking-States-By-Millioinaires-Per-Capita-2006-13.pdf>.

<sup>v</sup> Robert Tannenwald, Jon Shure and Nicholas Johnson. "Tax Flight is a Myth" *Center on Budget and Policy Priorities* August 15, 2011. <http://www.cbpp.org/research/tax-flight-is-a-myth>.