MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

FEBRUARY 15, 2017

Maintaining the Millionaire Estate Tax Would Protect State Investments in the Public Good

Position Statement Supporting House Bill 463
Given before the House Ways and Means 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. This 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 supports House Bill 463.

When the General Assembly acted to phase out the estate tax for families of multimillionaires, 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 $3 million pay the 16 percent estate tax, a benchmark that, if unchecked, will rise to $6 million by 2019. Once fully implemented, just 0.6 percent of estates would pay the Maryland estate tax.[1]

The estate tax raised $206.7 million in fiscal year 2017, down from $261.9 million in fiscal year 2016.[2] Allowing the exemption amount to increase further would cost the state an additional $16.8 million in fiscal year 2019, and that annual revenue loss would grow to about $60 million by 2022. This drop would harm the state services that all Marylanders count on.

Most Maryland families will never pay the estate tax. Only estates with assets greater than $3 million would pay the estate tax today, and larger estates only owe taxes on the amount above $3 million. When the exemption amount was $2 million, more than 93 percent of Maryland estates were not even required to file an estate tax return, while fewer than 3 percent of estates had 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. The General Assembly should freeze the estate tax now to stop the drain of resources needed to promote widespread prosperity.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make a favorable report on House Bill 463.

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[1] Department of Legislative Services. 2014. Retrieved from: http://mgaleg.maryland.gov/2014RS/fnotes/bil_0009/hb0739.pdf/

[2] Board of Revenue Estimates. December 2016. p. 12. Retrieved from: http://finances.marylandtaxes.com/static_files/revenue/BRE_reports/FYI_2017/2016_BRE_December_Report.pdf