MDCEP
MARYLAND CENTER ON ECONOMIC POLICY

JANUARY 21, 2021

Maryland Can Invest in our Future by Restoring the Millionaire Estate Tax

Position Statement in support of House Bill 165

Given before the House Ways and Means Committee

An effective revenue system is an essential tool to enable Maryland to invest in the foundations of our economy such as education, health care, and transportation—investments that are especially vital as we battle a pandemic and recession that are harming people across Maryland. Just as importantly, a fair tax system is essential to push back against the increasing concentration of wealth and power in a few hands. All Marylanders benefit when we have sufficient resources to invest in the basics, and these investments can be particularly important to break down the barriers—built through past and present policies—that hold back many Marylanders because of their race, gender, a disability, or another aspect of their identity. House Bill 165 would reverse a misguided tax break benefiting only a small number of millionaire scions and would likely raise more than $500 million over five years, enabling Maryland to strengthen our investments in the foundations of our communities. For these reasons, the Maryland Center on Economic Policy supports House Bill 165.

Maryland's estate tax is an important part of our tax code, generating more than $100 million per year to support our investments in education, health care, and other pillars of our economy. It also plays an important balancing role. Overall, Maryland's tax code is upside-down: The wealthiest 1 percent of households pay a smaller share of their income in state and local taxes than the rest of us do.[i] The estate tax pushes back on this lopsided structure, because it applies only to the wealthiest individuals and is one of the only ways the state taxes accumulated wealth.

However, the General Assembly's choice to exempt most multimillionaires from paying the estate tax in 2014 significantly weakened its ability to support essential services and balance our tax code. This misguided choice made it more difficult for the state to rebuild services during the recovery from the Great Recession and is now making it harder to protect basic investments during the COVID-19 recession:

- The state failed to substantially rebuild funding for local health departments after deep cuts during the Great Recession, forcing staffing and service cuts in every county and weaking our ability to respond to the coronavirus pandemic.[ii]
- By 2017, only six of the state's 24 school districts were close to full funding under the Thornton formula, down from 23 in 2008. More than half of the state's Black students went to school in a district that was underfunded by 15 percent or more.[iii]
- As of late 2017, legislative analysts estimated that state agencies were understaffed to the tune of about 2,500 workers.iv

House Bill 165 would reverse this damage, making our tax code more equitable and likely raising more than $500 million over five years.[v] Fixing our estate tax is especially important because of its role in making our tax code more racially equitable, because it applies only to households with significant built-up assets. Nationwide, the wealthiest

10 percent of white households controlled nearly two-thirds of all household wealth, while households of color were less than half as likely as white households to have more than $1 million in net worth.[vi]

As Marylanders consider the major investments we will need to recover from the current crisis and strengthen the foundations of our economy in future years, we should prioritize ending special interest tax breaks, making our tax code more equitable, and raising significant new revenue. House Bill 165 would accomplish all three goals.

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 165.

Equity Impact Analysis: House Bill 165

Bill summary

House Bill 165 would return the exemption for Maryland's estate tax to $1 million, its value before lawmakers exempted the majority of multimillionaires in 2014.

Background

The General Assembly in 2014 increased the estate tax exemption from $1 million to over $5 million, handing a windfall to a small number of ultra-wealthy heirs and making it harder for the state to invest in essential services. This choice reduced the number of estates subject to the estate tax from about 3 percent to less than 1 percent.

Maryland's estate tax includes numerous provisions to ensure it affects only households with the greatest ability to pay. 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. Agricultural property is taxed at a much lower rate than other property.

Equity Implications

House Bill 165 would bring significant equity benefits:

- Today, the wealthiest 1 percent of Maryland households pay a smaller share of their income in state and local taxes than the rest of us do. House Bill 165 would make our tax code more balanced by asking more of these high-income households.
- One in ten households nationwide has at least $1.2 million in built-up wealth. This group includes 13 percent of white households, 5 percent of all households of color, and less than 2 percent of Black households. A smaller group, the 10 percent of white households with the most built-up wealth, control nearly two-thirds of household assets nationwide. House Bill 165 would tax a source of income that overwhelmingly goes to a small, predominantly white group of wealthy households.
- Restoring our millionaire estate tax would generate revenue that could be invested in things like public health, world-class schools, and sufficient child care assistance. Investing in these basics strengthens our economy and can dismantle the economic barriers that too often hold back Marylanders of color.

Impact

House Bill 165 would likely **improve racial and economic equity** in Maryland.

---

[i] Meg Wiehe, Aidan Davis, Carl Davis, Matt Gardner, Lisa Christensen Gee, and Dylan Grundman, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," Institute on Taxation and Economic Policy, 2018, https://itep.org/wp-content/uploads/whopays-ITEP-2018.pdf

[ii] Christopher Meyer, "Lessons from the Great Recession: Policymakers Must Reject Deep Budget Cuts for a Strong Recovery," Maryland Center on Economic Policy, 2020, http://www.mdeconomy.org/recession-budget-cuts/

[iii] Christopher Meyer, "Budgeting for Opportunity: How our Fiscal Policy Choices Can Remove Barriers Facing Marylanders of Color and Advance Shared Prosperity," Maryland Center on Economic Policy, 2018, http://www.mdeconomy.org/budgeting-for-opportunity/

[iv] David Juppe et al., "Executive Branch Staffing Adequacy Study," Department of Legislative Services, 2018, http://dls.maryland.gov/pubs/prod/TaxFiscalPlan/Executive-Branch-Staffing-Adequacy-Study.pdf

[v] According to the fiscal and policy note for House Bill 256 of 2020, restoring the millionaires' estate tax would raise about $600 million over five years.

[vi] MDCEP analysis of Survey of Consumer Finances
Matt Bruenig, "The Best Way to Represent the Overall Racial Wealth Gap," People's Policy Project, 2017, https://www.peoplespolicyproject.org/2017/09/29/the-best-way-to-represent-the-overall-racial-wealth-gap/