Feb. 9, 2023

The Honorable Vanessa Atterbeary
Ways & Means Committee
House Office Building
Annapolis, MD 21401

RE: HB 268, “Maryland Estate Tax - Unified Credit” - UNFAVORABLE

Dear Chair Atterbeary and members of the committee,

As you are aware, Maryland is the only state that levies both an inheritance tax and an estate tax — and there is an interaction between the two. When an individual has assets that trigger the estate tax, any inheritance tax payable will count as payment on that tax. However, direct heirs (generally, spouses, direct linear ancestors / descendants, and siblings) are inheritance taxed at a rate of zero. Most others are subject to a 10% inheritance tax. Taken together, it can be a cumbersome and expensive system to navigate.

With this in mind, we wish to offer the following comments related to HB 268:

1. This puts Maryland back where it was in 2015. Inflation alone means that to tax the same value as was done in 2015, it should be approximately $1,250,000. With current inflation trends, that small exemption will continue to get smaller in “real” terms.
2. HB 268 adds an additional layer of complexity to tax compliance. The fee for a professional to prepare a federal estate tax return can easily range $5 - 20K or more, depending on what’s involved. It takes multiple client meetings to compile documents, discuss elections, etc., and all of this adds up quickly. After filing, there’s typically correspondence with the state and therefore additional fees for the CPA to respond.
3. HB 268 can penalize middle class individuals who saved well and spent modestly. Those who took advantage of 401(k), 403(b), or 457 governmental equivalent plans, or an IRA of any significance, will have exposure to estate tax as the remaining retirement plan balance counts toward the estate tax threshold. On the other hand, traditional pension plans of people of similar buying power (which are now typically limited to government and certain union employers) do not typically count toward a taxable estate.
5. This is a tax on the federal estate tax base — which includes not only the probate assets in the decedent’s name, but also life insurance proceeds, joint assets, IRAs, etc. Allocating and collecting the tax will be a challenge.

6. HB 268 will disincentivize business investment and drive high-net-worth individuals out-of-state.

MACPA's State Tax Committee appreciates the opportunity to provide these comments. For the reasons noted, we must respectfully request an unfavorable report for HB 268.

Should you have questions, please contact Mary Beth Halpern at the MACPA office at marybeth@macpa.org or (443) 632-2330.

Sincerely,

MACPA State Tax Committee

cc: Nick Manis, Manis Canning & Associates