

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1014 (Delegates Adams and Ghrist)
 Ways and Means

Maryland Estate Tax - Unified Credit

This bill conforms the Maryland estate tax to the value of the unified credit under the federal estate tax for decedents dying on or after January 1, 2025, thereby increasing the amount that can be exempted under the State estate tax. **The bill takes effect July 1, 2024.**

Fiscal Summary

State Effect: No impact in FY 2025. General fund revenues decrease by approximately \$52.6 million in FY 2026 and by \$37.0 million in FY 2029. Future year revenue estimates reflect annualization, the estimated payment schedule of State estate taxes, and the estimated value of the federal unified credit. No effect on expenditures.

| (\$ in millions) | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
|------------------|---------|----------|----------|----------|----------|
| GF Revenue | \$0 | (\$52.6) | (\$40.4) | (\$33.2) | (\$37.0) |
| Expenditure | 0 | 0 | 0 | 0 | 0 |
| Net Effect | \$0.0 | (\$52.6) | (\$40.4) | (\$33.2) | (\$37.0) |

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law:

Estate Tax

The State imposes a tax on property that passes at or after the death of an individual through an estate tax and an inheritance tax. In fiscal 2025, estate tax revenues are projected to total \$194.3 million. Estates may generally claim a credit against the estate tax for the amount of inheritance taxes paid.

A Maryland estate tax return is required for every estate with a federal gross estate, plus specified adjustments, that equals or exceeds the Maryland estate tax exclusion amount for the decedent's date of death. An estate with a value that exceeds this exclusion amount must file a return if the decedent, at the date of death, was a Maryland resident or the decedent was a nonresident who owned real or tangible personal property having a taxable *situs* in Maryland.

Recent Legislation

Among other changes, the federal Tax Cuts and Jobs Act (TCJA) of 2017 decreased federal estate taxes by doubling the federal exclusion amount for decedents dying in calendar 2018 through 2025. The TCJA's estate tax provisions terminate for decedents dying beginning in calendar 2026. Chapters 15 and 21 of 2018 decoupled the Maryland estate tax from the TCJA's increased federal exclusion amount. Beginning January 1, 2019, the State exclusion amount equals \$5.0 million. Special rules apply under the Maryland estate tax for qualified agricultural land.

Chapters 15 and 21 also established "portability" under the State estate tax by allowing, under specified circumstances, the estate of a married taxpayer to pass along the unused part of the estate tax exclusion amount to the surviving spouse. A surviving spouse may subsequently elect to claim the unused portion of the estate tax exclusion amount of the predeceased spouse.

In addition, unless the federal estate tax credit used to calculate the Maryland estate tax is in effect at the time of a decedent's death, the federal credit used to determine the State estate tax may not exceed 16% of the amount by which a decedent's taxable estate exceeds the applicable exclusion amount.

State Fiscal Effect: Under current law, the value of the federal unified credit used to calculate the Maryland estate tax is equal to \$5.0 million for decedents dying after January 1, 2019, plus any deceased spousal unused exclusion amount. The bill recouples

the Maryland unified credit amount, which is used to determine Maryland estate tax liability, with the federal unified credit amount for decedents dying on or after January 1, 2025. The federal unified credit amount is \$13.6 million for tax year 2024 and estimated to be approximately \$13.9 million for tax year 2025. However, because the TCJA's estate tax provisions sunset at the end of 2025, the federal unified credit amount will go back to \$5.0 million, adjusted for inflation. As a result, the Comptroller's Office estimates the inflation adjusted federal unified credit amount to be approximately \$7.1 million in tax year 2026, \$7.3 million in tax year 2027, \$7.5 million in tax year 2028, and \$7.7 million for tax year 2029.

Altering the exclusion amount will decrease general fund revenues by \$52.6 million in fiscal 2026 and by \$37.0 million in fiscal 2029. This estimate is based on the December 2023 revenue forecast and a microsimulation of changes to the estate tax exclusion amount for recent decedents adjusted for differences in the Maryland estate tax.

An estate tax return must be filed within nine months of a decedent's death. For purposes of the estimate, it is assumed that for decedents dying between January 1, 2025, and June 30, 2025, the estate tax will be paid in fiscal 2026. For other years, it is assumed that 75% of estates remit taxes due in the fiscal year following the date of death and the remaining amount is paid in the next fiscal year.

Small Business Effect: Small businesses that pay estate taxes will be positively impacted by decreased estate tax liabilities. However, the number of impacted businesses is expected to be minimal.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 928 (Senator Mautz) - Budget and Taxation.

Information Source(s): Comptroller's Office; Department of Legislative Services

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km/jrb

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