FEBRUARY 22, 2022

Say No to Yet Another Giveaway for Wealthy Heirs

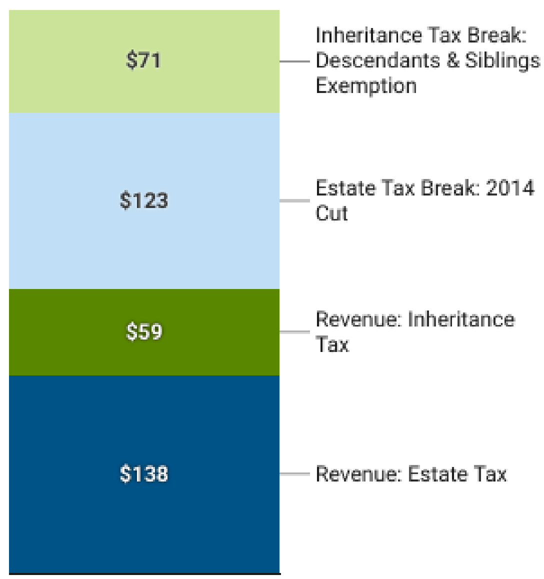
Position Statement in opposition to Senate Bill 432

Given before the Senate Budget and Taxation 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. 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. **The Maryland Center on Economic Policy opposes Senate Bill 432** because it would deepen inequities in our tax code and make it harder to invest in Maryland communities.

Wealthy Heirs Already Enjoy Generous Tax Breaks

Estate and inheritance tax revenues and tax breaks, FY 2020



Tax expenditure data are not available later than FY 2020.

Chart: Maryland Center on Economic Policy • Source: Bureau of Revenue Estimates, Tax Expenditure Reports, fiscal notes • Created with Datawrapper

Maryland's inheritance tax is an important part of our tax code, generating tens of millions each year to support our investments in education, health care, and other pillars of our economy, as well as administrative costs incurred by local registers of wills. The inheritance tax is expected to raise about $68 million in fiscal year 2024. This is more than the state invests from its general fund in dozens of dozens of agencies each year. A small sample:

- Maryland Department of Labor ($60 million)
- Maryland School for the Deaf ($45 million)
- Department of Aging ($34 million)
- Department of Disabilities ($4 million)
- Maryland Commission on Civil Rights ($3 million)

The inheritance tax also plays an important balancing role. Overall, Maryland's tax code is upside-down: The wealthiest 1% of households pay a smaller share of their income in state and local taxes than any other income group.[i] Our tax system would further deepen inequity without the inheritance tax, which is one of the only ways the state taxes accumulated wealth.

Taxing inherited wealth is especially important as a way to make our tax code more racially equitable, because it applies only to households receiving intergenerational transfers of wealth. Nationwide, the wealthiest 10% of white households control nearly two-thirds of all household wealth.[ii]

The inheritance tax already includes numerous exemptions to ensure that it affects only households with the greatest ability to pay. There is no inheritance tax on property transferred to a spouse, a primary residence inherited by a domestic partner or transfers to any person of up to $1,000. Estates worth up to $50,000 are not taxable at all. Finally, descendants and siblings of the decedent are entirely exempt, a tax break worth more than $70 million as of fiscal year 2020.[iii]

Moreover, both the state and federal governments have created generous tax breaks for inherited wealth in recent years:

- Maryland lawmakers in 2014 increased the amount of property subject to the estate tax (our only other tax on inherited wealth) from $1 million to $5 million, a lopsided tax break that costs well over $100 million each year.[iv]
- Former President Trump's 2017 tax overhaul temporarily doubled the federal estate tax exemption to more than $10 million, handing the wealthiest 1% nationwide $9 billion in tax cuts.[v]
- While there are important differences in structure and use between our estate and inheritance taxes, the fact remains: Senate Bill 432 would hand yet another giveaway to wealthy heirs who already enjoy generous tax breaks.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Senate Budget and Taxation Committee make an unfavorable report on Senate Bill 432.

Equity Impact Analysis: Senate Bill 432

Bill summary

Senate Bill 432 would repeal Maryland's inheritance tax for decedents dying after June 30, 2023.

Background

Maryland's inheritance tax is projected to raise about $68 million in fiscal year 2024. A portion of this revenue covers administrative costs at local registers of wills and the remainder goes to the state's general fund.

The inheritance tax includes numerous exemptions, together worth more than $70 million per year as of fiscal year 2020). These include but are not limited to:

- Property transferred to a spouse, lineal beneficiary, or sibling of the decedent
- A primary residence inherited by a domestic partner
- Transfers to one person of up to $1,000
- All inheritances from an estates worth up to $50,000

State and federal lawmakers have in recent years enacted significant cuts to the estate tax, the other major tax on inherited wealth. In 2014, Maryland lawmakers increased the estate tax exemption from $1 million to $5 million, costing well over $100 million in lost revenue each year. In 2017, Congress and former President Trump temporarily doubled the federal estate tax exemption to more than $10 million, at a nationwide cost of about $9 billion per year.

Equity Implications

Senate Bill 432 would deepen inequity through two channels:

- Repealing the inheritance tax would cost tens of millions in lost revenue that could otherwise 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.
- Repealing the inheritance tax would further tilt our tax code in favor of the wealthy and powerful. The inheritance tax by definition applies only to estates with significant built-up assets. Already, the wealthiest 1% of Maryland households pay a smaller share of their income in state and local taxes than any other income group. Moreover, exempting intergenerational wealth transfers from taxation worsens racial injustice. Nationwide, the wealthiest 10% of white households (6% of all households) control nearly two-thirds of all household wealth. Senate Bill 432 would predominantly benefit this group at the expense of everyone else.

Impact

Senate Bill 432 would likely **worsen racial and economic inequity** in Maryland.

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[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] Michael Leachman, Michael Mitchell, Nicholas Johnson, and Erica Williams, "Advancing Racial Equity with State Tax Policy," Center on Budget and Policy Priorities, 2018, https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy

[iii] Maryland FY 2020 Tax Expenditure Report, Department of Budget and Management, https://dbm.maryland.gov/budget/taxexpendreports/FY2020TaxExpenditureReport.pdf

[iv] See Fiscal and Policy Note for House Bill 256 of 2020, https://mgaleg.maryland.gov/2020RS/fnotes/bil_0006/hb0256.pdf

[v] "TCJA by the Numbers," Institute on Taxation and Economic Policy, 2019, https://itep.org/tcja-2020/