Estate Tax Change is a Good Thing

There is a public perception that Maryland legislators and Gov. Martin O'Malley caved into the wealthy residents earlier this year when they "recoupled" Maryland's estate tax to the federal tax over a four-year period. But I say it is a good thing, not only for people with modest estates ($1 million to $5 million), but also for Montgomery County and all of Maryland.

Under the old law, Maryland taxed estates worth over $1 million at 10 percent if the money went to linear descendents (children, grandchildren, step-children or children). Under the new law, by recoupling the tax to the federal rate over several years, the value of exempt estates goes up to match the federal exemption over several years.

The new law will raise the exemption to $1.5 million in 2015, $2 million in 2016, $3 million in 2017, and $4 million in 2018 before matching the federal exemption (projected to be $5.9 million) on January 1, 2019. The state exemption would be coupled with the federal exemption going forward, meaning the inflation would be adjusted each year.

Not only would this change in the "death tax" establish fairer tax policy across state lines, reducing incentives for estate planning through a residency change, which would keep more wealthy Marylanders in the state, but it would also enable the state to maximize income and property and sales tax revenue that would otherwise be lost.

Montgomery County Executive Ike Leggett, at a chamber of commerce meeting in May, said the top three percent of county households generate 40 percent of the county's revenue. Yet wealthy people are leaving the state in droves, many of them relocating to Virginia, Delaware, North Carolina, Florida or 41 other states that do not impose estate taxes. The Tax Foundation, a non-partisan think-tank headquartered in Washington, D.C., points out that Maryland has lost a net $5 billion in personal income tax collections during the first decade of the 21st century.

To what extent is this "millionaire exodus" happening in Montgomery County? In his recent remarks to the chamber, Leggett stated that his office has estimated that 700 to 800 households of that top three percent are leaving the county each year because of the combination of income and estate tax burdens.

At the same time, approximately 35 percent of Montgomery County students receive free or subsidized school lunches. And the county pays generous pension benefits to unionized county employees.

In my opinion, the county and the state need tax revenue from "Middle Class Millionaires" to help fund these generous public services and benefits. The recoupling of the Maryland estate tax to the federal inheritance tax removes one of the tax burdens that have been pushing wealthier residents out of the state.

It's important to point out that we're not giving these wealthy folks a tax break – we're just making Maryland's inheritance taxes equal to 45 other states where this tax is coupled to the federal tax. Now there are only six states left with decoupled estate tax laws.

Thanks to the change in the Maryland estate tax law, I predict more Middle Class Millionaires will stay in Montgomery County. Since we have a small percentage of wealthy people generating a large percentage of the revenue, we need them to stay, not only for their state income, real estate, sales, gas and alcohol taxes, but because they spend money at local businesses.

The more Middle Class Millionaires stay in Montgomery County, the better our county and state governments will be able to afford to do all the good things they do for our community. That's why, in the final analysis, Maryland lawmakers and the governor did the right thing by changing the estate tax law.

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