How Declining Tax Revenue Could Impact Our Quality of Life

Earlier this year, new Montgomery County Executive Marc Elrich announced that the county will be collecting far less money in tax revenue than was previously anticipated over the next couple of years.

More specifically, Montgomery County is now projected to collect about $80 million less in taxes during fiscal years 2019 and 2020. The state of Maryland, meanwhile, will collect nearly $269 million less in tax revenue during this time. These lower tax revenues are mainly the result of state and federal tax code changes brought about by the Tax Cuts and Jobs Act, noted former Montgomery County Executive Isiah Leggett.

The Tax Ripple Effect

Before he left office, Leggett pointed out that the projected drop in tax revenue is the result of tax-saving moves made by just a few dozen or so wealthy residents of the county. Following the advice of their tax advisors, these residents held off on realizing capital gains and selling their businesses until after tax reform was passed.

Leggett described this as a “ripple effect” that the actions of a relatively small number of ultra-wealthy citizens can have on the finances and operations of the county. In his remarks made late last year, he stressed the importance of incenting these ultra-wealthy individuals and families to stay in the county by figuring out a way to accommodate people with differing views.

“We can’t afford to lose large sums of very wealthy people,” he said, specifically mentioning Washington Redskins owner Dan Snyder, who has recently said he’s getting ready to move to low-tax Florida. “The wealthy play a very disproportionate impact.”

Other Contributing Factors

The one-time tax-saving actions of a few dozen ultra-wealthy citizens aren’t the only contributing factors to the county’s and state’s fiscal challenges. In addition, Maryland is one of just 17 states that has a state estate tax on top of the federal estate tax for estates that are above a certain threshold.

Maryland also has a state inheritance tax in addition to a state estate tax. As an article recently published on *Yahoo! Finance* put it, “Pity the poor residents of the alleged ‘Free’ State – Maryland levies both types of taxes.”

Heirs of estates larger than $5 million in Maryland are faced with paying a 16 percent state estate tax. At the federal level, the 40 percent estate tax only applies to estates that are larger than $11.4 million. This

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means a wealthy family in Maryland could face a total estate tax burden as high as 56 percent. In other words, heirs could end up paying more than half of their inheritance in estate taxes.

"It's in all of our best interest for wealthy families to remain here in Montgomery County. Otherwise, we could see a slow and steady erosion of the high quality of life that we all enjoy in our great community."

In contrast, there's no state estate tax just on the other side of the Potomac River in Virginia. For a family with a $15 million estate, this represents an estate tax difference of $1.6 million. I recently mentioned the estate tax burden of Maryland versus Virginia to a family friend considering moving to a retirement community in Montgomery County, who currently lives in Arlington, Virginia. His response was "well that makes the cost of living much higher in Montgomery County than it is in Arlington."

Technology Gives Business Owners Flexibility

It's discouraging to see our county facing these kinds of financial pressures when the national economy is as healthy as it is. The national unemployment rate remains near historic lows and both job creation and GDP growth are strong.

But in today's digital world, technology and videoconferencing enable wealthy business owners and entrepreneurs to live wherever they want. And in high-tax areas like Montgomery County, many are choosing to relocate to cities with lower tax burdens.

Andy Stern, the new chairman of the Greater Bethesda Chamber of Commerce, recently cited data revealing how far behind Montgomery County is falling when it comes to new business creation. Between 2011 and 2017, just 88 net new businesses were created in the county. This compares to 7,500 net new businesses during this time in the state and 8,000 in the District of Columbia.

Stern, who has experience as a small business owner, commented about "how hard it is to do business" in Montgomery County. He added that the private sector economy in Montgomery County grew by just 1.1 percent between 2001 and 2016. This placed Montgomery County 19th among 24 local jurisdictions in the region.

Why "Taxing the Rich" Doesn't Work

Some people don't think we should be concerned about the amount of taxes that wealthy people pay. But it's important to remember that communities are dependent on their wealthiest citizens to pay most of the taxes that support vital services everyone depends on.

Put another way, every time one of these ultra-wealthy families decides to leave Montgomery County, this jeopardizes the free and subsidized lunches received by a third of our county's public school students. Or it means that more police officers and firefighters can't be hired or more roads and other infrastructure can't be built and maintained.

It's in all of our best interest for wealthy families to remain here in Montgomery County. Otherwise, we could see a slow and steady erosion of the high quality of life that we all enjoy in our great community – Montgomery County, Maryland. MM