

Testimony in Support of LD 501: An Act to Amend the Estate Tax Laws

Good Morning Senator McCormick, Representative Goode, and distinguished members of the Joint Committee on Taxation. I'm Joel Johnson, an economist at the Maine Center for Economic Policy.

The Maine Center for Economic Policy supports LD 501. This bill would improve the economic efficiency and fairness of Maine's tax code.

The estate tax is a tax on wealth flowing from deceased persons to their designated heirs. Only the wealthiest Mainers—those with a net worth of more than \$2 million – pay the state's estate tax and then only on the portion of the estate valued at more than \$2 million. While more than 13,000 Mainers die each year in Maine, the state only collects taxes on about 150-170 (about 1.3 percent) estates. In 2013, nearly half of those estates belonged to decedents who were nonresidents. The heirs of this small number of estates (many of whom presumably also live in other states) end up paying no more than 7.2% of the value of the estate after accounting for the value of the deduction against federal tax liability.

In 2011, the Governor and the Legislature made changes to Maine's estate tax laws that resulted in a tax cut of about \$27 million per year. Those changes simplified brackets, lowered rates, and increased the exclusion amount from \$1 million to \$2 million.

LD 501 would keep the simpler brackets and lower rates while returning the exclusion amount to \$1 million. It would increase the number of estates subject to the estate tax from about 150 to about 600.

Maine's estate tax helps make the state's tax system fairer. Without an estate tax, Maine's wealthiest families would pay zero state taxes on much of their income. Increases in the value of assets like stocks and real estate that are held until death would go untaxed.

This bill would raise \$15 million that could then be used to reduce taxes elsewhere, in targeted fashion, for low- and middle-income Maine residents. For a given level of public investment, revenue not collected by the estate tax must necessarily be collected by other taxes on income, sales, or property. All of those taxes are less efficient for the economy and fall harder on low- and middle-income taxpayers.

Sixteen states and the District of Columbia have an estate tax and eight states have inheritance taxes.¹ Of the states that have estate taxes, about half have exclusion amounts of \$2 million or more and half have exclusion amounts of \$1 million or less. LD 501 won't make Maine an outlier in terms of exclusion amounts.

A common argument against the estate tax is that it hurts small businesses and family farms and forces heirs to sell the family business to pay the estate tax bill. But very few small businesses or family farms are subject to the estate tax because very few are worth enough to trigger the tax. Small businesses and family farms are valued for estate tax purposes according to special valuation considerations and after taking account of both assets and liabilities. A 2005 report by the Congressional Budget Office (CBO) looked closely at this issue.² They used federal estate tax returns to estimate that only 135 small businesses and 123 farms nationwide would owe any federal estate tax if the federal estate tax exclusion were \$2 million. Extrapolating those estimates to Maine's current law suggests that only 3 farms and 3 small

¹ Based on MECEP research in 2013.

² Congressional Budget Office, *Effects of the Federal Estate Tax on Farms and Small Businesses*, July 2005, <http://www.cbo.gov/publication/16897>. Retrieved on March 30th, 2015.

businesses owe any Maine estate tax in any given year, and virtually zero face liquidity constraints to pay the tax. That is, very few farms or small businesses owe any estate tax at all and even fewer lack the cash or other liquid assets to pay the tax.

It's also clear that disparity in inherited wealth contributes to the growing income gap between the rich and everyone else, both in Maine and across the nation. The estate tax is one of the best tools for ensuring that all Maine children, regardless of how wealthy their parents or grandparents were, have the opportunity to thrive.