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# Repeal of the Federal Estate Tax Would Cost the Maryland State Government Millions

Congress has passed and sent to the White House legislation that would repeal the federal estate, gift, and generation-skipping transfer tax by 2010. Under this legislation, the estate tax would be reduced gradually over the next decade, leading to full repeal in calendar year 2010. Once the proposal was fully in effect — and the estate tax had been repealed — the proposal would cost the federal government about $50 billion a year.

## States Share in the Federal Estate Tax

State governments also receive revenue through the federal estate tax. Under the current provisions of the federal estate tax, taxpayers receive a dollar-for-dollar credit against their federal estate tax liability for state estate and inheritance tax payments up to a specified amount. The maximum amount of the credit varies by the size of the estate.

Currently, every state has a tax on estates equal to at least the value of the credit that can be taken against federal liability. Information gathered from state budgets and state revenue officials suggests that states together would have lost approximately $5.5 dollars in revenue in fiscal year 2000 if estate tax repeal had already been in effect. By 2010, when the estate tax repeal would be fully effective under the proposed legislation, the state revenue loss would approach $9 billion.

Maryland is one of 15 states that have their own inheritance or estate taxes. In cases where the state liability is greater than the credit, federal estate taxpayers receive a credit for the portion of their state tax that equals the maximum allowable credit. If on the other hand, the state liability is less than the amount of the credit allowed against federal taxes, all these states provide that the amount of state tax owed is increased to the amount of the credit. This is commonly referred to as a "pickup" or "sponge" tax. States with their own inheritance or estate taxes would lose the incremental revenue from their pickup taxes if the federal tax were repealed. Thus, these states are likely to lose some, but not all, of their estate tax revenues if the federal tax is repealed.

The remaining 35 states currently have *only* an estate tax that equals the amount of the state credit. In these states the state law refers specifically to the amount allowed as a credit against the federal estate tax. A pickup tax provides revenue to the state but does not increase the federal estate tax payment the heirs must make. Instead, the estate's federal estate tax liability is reduced by the amount of the state tax payment.

In recent years, many states have changed their own estate and inheritance taxes to rely solely on a pickup tax equal to the maximum federal credit. This has left them vulnerable. States that have retained some version of their own estate or inheritance tax are likely to lose some, but not all, of their revenues from this source.

## Maryland Would Lose About $80 Million Annually if the Estate Tax were Repealed

In fiscal year 2000, the pickup tax increased Maryland's succession tax revenues by approximately $80 million. This number represents the incremental revenue due to the pickup tax and not the total amount of revenue generated. Had the federal estate tax repeal been in effect in that year, Maryland would have lost approximately $80 million.

Analysis of the federal estate tax shows that it is paid solely by the wealthiest two percent of people who die each year. The elimination of Maryland's estate tax would benefit the wealthiest taxpayers in the state while reducing the amount of revenue available to finance services for all state residents.