Maine Center for Economic Policy

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Good afternoon Senator McCormick, Representative Goode, and members of the Joint Standing Committee on Taxation. My name is Sarah Austin; I am a policy analyst at the Maine Center for Economic Policy.

I am here today to testify against LD 1622. The estate tax helps fund education, health care, and infrastructure that keeps our economy strong and competitive and provides a pathway to prosperity for all Mainers regardless of the circumstances of their birth. Eliminating Maine's estate tax would jeopardize funding for these pillars of our economy and further divide the wealthiest from the rest of Mainers.

Using Maine Revenue Services' numbers, we estimate that eliminating the estate tax will generate a nearly $18 million give away to fewer than 60 of the wealthiest families owning property in Maine each year.[1] These are estates valued at over $5.5 million. Of the roughly 13,000 Maine estates passed on each year, this tax affects less than one half of one percent.

The estate tax is important for Maine because it helps fund our schools and infrastructure, and because it addresses an economic issue that other taxes cannot. Mounting income and wealth inequality is a serious threat to economic growth.[2] Wealthy families already benefit from preferential treatment in the tax code, and eliminating the estate tax will only make these divisions of tax fairness and wealth inequality worse.

One specific way the estate tax addresses this issue is by taxing unrealized capital gains. An unrealized capital gain is the increased value of assets like real estate or stocks that would be subject to tax if the assets were sold before death, but because the assets are being passed on after death they go untaxed. The Center on Budget and Policy Priorities estimates that on average between 32-55 percent of wealth passed on by estates valued at over $5 million is made up of unrealized capital gains.[3] The estate tax levies a tax on this income that would otherwise go untaxed which helps to even the playing field with regard to the share of taxes wealthy families pay relative to other families.

Concerns about the impact of the estate tax on small farms and businesses are misplaced. Nationally, only a handful of small, family-owned farms and businesses owe any estate tax. According to a national study by the Tax Policy Center, roughly 20 such entities owed any estate tax in 2013.[4] Those that did paid an effective rate of 4.9%, a fraction of the 40% federal estate tax rate. Maine's rates are even lower than the federal rates.

If one of the 20 or so farms and businesses that pay the estate tax nationally each year happens to be based in Maine, the state estate tax will be a pittance. However, eliminating Maine's estate tax will come at a huge cost to the other services that all farms, businesses, and residents rely on. Eliminating the estate tax will force legislators to either raise revenue from other taxes or cut essential state funding for the very services like schools, road maintenance, job training, and more that keep our economy going.

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[1] Using MRS estimates, eliminating the estate tax from the 2 million exemption level cost $32.8 and $37 million for FY 2018 and 2019, raising the estate tax exemption from $2 million to the federal exemption of approximately $5.5 million cost $16.8 and $17.5 million for FY 2018 and 2019, the difference estimates the cost of removing the estate tax at its current exemption level in conformity with the federal

[2] Organization for Economic Co-operation and Development. 2014. Focus on Inequality and Growth. Available At: http://www.oecd.org/social/Focus-Inequality-and-Growth-2014.pdf

[3] Center on Budget and Policy Priorities. 2015. Ten Facts You Should Know About the Federal Estate Tax. Available At: http://www.cbpp.org/sites/default/files/atoms/files/1-8-15tax.pdf

[4] Urban-Brookings Tax Policy Center Microsimulation Model. 2013. Table T13-0029

Finally, the estate tax is a critical ingredient to a balanced revenue system and addressing the growing inequality that exists in Maine today. The Organization for Economic Co-operation and Development recommends that the loss of economic growth that stems from inequality be addressed by increasing access to education and increasing taxes on the wealthy.[5] Eliminating the estate tax and allowing between a third and half of the income passed on to heirs to go untaxed makes our tax system less fair and jeopardizes state funding for education, the best tool we have for addressing income inequality and the squandered economic growth that results from inequality.

We urge the Committee to reject elimination of Maine's estate tax. Eliminating the estate tax will further the wealth divide, benefit families who already contribute the smallest share of their income to support the state services that keep our economy competitive, and jeopardize state funding for schools and transportation infrastructure that we know are essential to creating growth and opportunity in our economy.

[5] Organization for Economic Co-operation and Development. 2014. Focus on Inequality and Growth.