



GOVERNOR EHRlich'S

2006 Estate Tax Modernization

- Governor Ehrlich will modernize the State's estate tax by tying it closer to the Federal estate tax. With today's rising real estate values, combined with life insurance and pension plans, many more Marylanders are surprised to learn that they are subject to this tax.
- Historically, taxes levied by most states were linked, or "coupled", to their corresponding federal taxes. Recent actions by the Maryland General Assembly have severed some of these links, adversely affecting taxpayers. This "decoupling" led to a rise in Maryland state taxes and caused an increase in the complexity of an already complex tax system.
- Surveys show that these so-called "death taxes" are the least favored types of taxes, both among wage earners, small business owners and farmers. Congress recognized this and has passed legislation that raises the amount exempt from federal death taxes from \$1 million to \$3.5 million over time. However, as a result of the decoupling, the Maryland estate tax only exempted \$1 million in assets. In addition, the Maryland estate tax is imposed when the first spouse of a married couple died; historically, this tax was not imposed until the surviving spouse died.
- As a result of decoupling, a married couple in Maryland worth over \$1 million, including the price of a home, small business or farm, could be faced with a Maryland estate tax of \$64,400 this year and rising as high as \$229,200 in 2009. These taxes are due within 270 days of death.
- Governor Ehrlich's proposal will eliminate this unfairness by recoupling the federal and Maryland estate taxes. As a result, beneficiaries of owners of many small businesses, farms or homes that have significantly appreciated in value, will no longer have to face the situation of selling that asset to satisfy a massive state tax bill. In addition to benefiting the business owner, it will also protect the jobs of those who work for a small business.
- If the Governor's proposal becomes law, many Marylanders who have spent their lives building up small businesses or farms will no longer have to worry that their savings and other assets will be lost through the tax system when they pass. Governor Ehrlich believes modernizing this tax is a fiscally responsible way to provide tax fairness for farmers, small business owners and their families while simplifying an already-burdensome tax code.