Testimony on Estate Tax Bill H. 2881
An Act Relative to the Massachusetts Estate Tax Code

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The Massachusetts estate tax is levied on the net value of the estate of a deceased person before distribution to the heirs. Currently, the threshold at which estates become taxable is at a net value of $1 million or more. The estate's net value is then taxed at a marginal rate ranging from 0.8 percent on the first $1,000,040 to 16 percent on estates valued at $10.04 million and more. If it falls above the threshold, the entire estate is subject to the tax.

House Bill H. 2881, as proposed by Representative Shawn Dooley (R-Norfolk), raises the threshold at which estates become taxable to $2.75 million. The proposal would allow for two personal exclusions for couples who do not choose to set up a trust. In addition, the value of the Massachusetts primary residence (up to $2.75 million) is excluded from the taxable estate. Finally, the proposal annually indexes the estate tax threshold for inflation while reducing the number of marginal estate tax rates to four.

H. 2881 is a step in the right direction. It eliminates a strong incentive for people to move out of the state to avoid burdening their decedents with the tax. As mentioned, the threshold value at which estates become taxable is currently $1 million. Estates worth $1 million have been common in Massachusetts. A reasonably sized home in the suburbs of Boston and an adequately funded IRA could put an estate well above the $1 million threshold. The estate tax is not exclusive to wealthier taxpayers and has inadvertent consequences for state finances.

Take, for example, the typical home price in Massachusetts. According to Zillow Home Value Index, the average home value in Massachusetts as of November 2021 is $541,834, up nearly 17 percent from November of 2020. Since November 2019, the average home value is up almost 27 percent. As of November 2021, the average home value in Boston is $696,036. With a low inventory of available houses, the likelihood that home values in Massachusetts will keep increasing in the future is high.

The $1 million estate tax threshold is far outdated, with asset values soaring, especially over the past two years. By limiting the tax to estates above the first $2.75 million and indexing the tax to inflation, H.2881 would reduce the anomaly created by current law.

Massachusetts has one of the lowest thresholds for estate taxes and one of the highest tax rates in the nation. As it currently stands, only Massachusetts and Oregon have estate tax thresholds as low as $1 million. The proposal would bring the estate tax threshold closer to that of nearby states such as New York ($5.9 million), Vermont ($5 million), and Maine ($5.8 million). By bringing down the estate tax threshold, Massachusetts would incentivize residents to remain in the state and, in that way, increase revenue.

Massachusetts residents, especially older individuals, are moving to states like neighboring New Hampshire or Florida with no estate or inheritance tax. According to the U.S. Census Bureau, Massachusetts had the 6th highest rate of out-migration in 2021.[1] The 2021 United Van Lines National Mover Study echoed the findings of the Census Bureau. According to that study, Massachusetts ranked 7th in the top ten outbound states.[2]

There has been extensive research on estate taxes and their effects on state out-migration. According to a paper by Joel Slemrod and Jon Bakija for the National Bureau of Economic Research, a one percent increase in the effective state estate and inheritance (EI) tax rate is associated with a 1.4 percent to 2.7 percent decline in the number of federal estate tax returns filed in a state.[3] The paper also found that estates over $5 million were more sensitive to estate tax rates, with a four percent decline in the number of federal returns filed in a state associated with a one percent increase in the effective state EI tax rate.

In a recent paper in the *Journal of Economic Perspectives*, Florian Scheuer and Joel Slemrod found taxes on wealth accumulation to have numerous adverse impacts.[4] Specifically, they found that a wealth tax may reduce average wage rates in the long run while negatively impacting entrepreneurship. Scheuer and Slemrod highlight that progressive wealth taxes can force entrepreneurs to decrease ownership in a company whose value increases over the long run to avoid tax liability.

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[1] US Census Bureau, “2021 National and State Population Estimates,” https://www.census.gov/newsroom/press-kits/2021/2021-national-state-population-estimates.html, (December 21, 2021).

[2] United Van Lines, *Annual 2021 United Van Lines National Movers Study*, https://www.unitedvanlines.com/newsroom/movers-study-2021, (accessed January 6, 2022).

[3] Jon Bakija and Joel Slemrod, "Do the Rich Flee from High State Taxes? Evidence from Federal Estate Tax Returns," National Bureau of Economic Research, Working Paper 10645, (July 2004).

[4] Florian Scheuer and Joel Slemrod, "Taxing Our Wealth,” *Journal of Economic Perspectives*, 35 (1): 207-30 (Winter 2020).

Death taxes fall on wealth that was already taxed when it was accumulated. H.2881 would reduce this burden and, by doing so, stem the tide of out-migration from the state. In addition, the reduction of the number of marginal rates in the tax code would simplify the code. The Massachusetts estate tax was designed to tax wealthier individuals. However, current law places a heavy burden on the middle-class. H.2881 relieves the middle-class of this burden by making long-overdue changes to the state's low threshold while adjusting for inflation.

In all likelihood, H.2881 would enhance, not diminish, revenue collections. If a person approaching old age leaves the state to avoid burdening his heirs with the estate tax, he will immediately forego paying state taxes on his income and retail purchases. Thus, the state's revenues from those sources will also shrink. Written, as it is, to tax the decedents of middle-income residents, the current tax is probably a revenue-loser.