Have You Planned for State Estate and Inheritance Taxes?

Although most people’s estates aren’t large enough to be affected by the federal estate tax, residents in many state have to consider how state taxes may reduce their estates. Several states have their own estate tax, which can affect much smaller estates than the federal estate tax does. In addition, some states impose an inheritance tax on beneficiaries of an estate.

The federal estate tax exemption is currently $5.25 million for an individual, so most estates are exempt. However, 15 states (Connecticut, Delaware, Hawaii, Illinois, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New York, Oregon, Rhode Island, Tennessee, Vermont, and Washington) and the District of Columbia currently have separate state estate taxes, and six states have an inheritance tax (Iowa, Kentucky, Maryland, Nebraska, New Jersey, and Pennsylvania). The numbers change constantly. In recent years, the trend has been for states to eliminate such taxes. For example, Tennessee is currently phasing out its estate tax, which is set to end in 2016.

If you live in one of the states with an estate tax, you need to take the tax into account when planning your estate. While some states (e.g., Delaware and Hawaii) exempt the same amount as federal law, other states’ estate taxes can affect much smaller estates. For example, New Jersey taxes estates worth more than $675,000 and Oregon taxes estates of more than $1 million. Most states with an estate tax exempt the first $1 million to $2 million of an estate’s value. To find out whether your state has an estate tax and how much it is, click here.

Another state tax to take into account when planning your estate is the inheritance tax. An inheritance tax is a tax on the person receiving an inheritance. Spouses are usually exempt from the tax, and in some states, children are as well. Charitable beneficiaries may also be exempt. Usually, the less closely related the beneficiary, the higher the tax. Even if the beneficiary doesn’t live in a state with an inheritance tax, if the person who died resided in an inheritance tax state, the beneficiary can still be taxed. For more information about inheritance taxes, click here.

You have several options for avoiding state estate and inheritance taxes, including creating a trust or gifting money. Talk to your attorney to find out the best solution for you. Because the law is constantly changing, even if you have an estate plan, you should check with your attorney to ensure your plan does not need updating.

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