

Financial, Legal & Tax Advisory

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The Estate Tax and the States

There is a lot of talk about eliminating and/or changing the estate tax. What is not being discussed is the fact that many states also have an estate and/or inheritance tax that is based upon the federal estate tax and the federal estate tax rates. A change in the federal estate tax will also affect the states that rely on income from their state tax. Let's take a look at some states and see what is happening.

The key is the amount of the federal estate tax exemption. This is the amount that a person has in their taxable estate that is not taxed at the time of death. The amount for the federal estate tax was changed to \$5,000,000 a few years ago and it increases each year based upon inflation rates. The amount of the federal exemption for 2017 is \$5,490,000. Thus, anyone dying in 2017 is not subject to the federal estate tax unless their taxable estate exceeds \$5,490,000. However, the same is not true for various states. Each state sets its own exemption amount, which can be less, equal or greater than the federal estate tax exemption amount.

Many states have an estate exemption rate that is equal to the federal rate. For example, the State of Maine ties its state exemption to the federal rate. If the federal rate is eliminated, it is conceivable that Maine would not eliminate its exemption. Another state, Massachusetts in 2016 has an exemption amount of \$2,000,000 in which the State reported collections of \$400,000,000 in monies from individuals that died and had taxable estates in excess of the \$2,000,000 exemption. This is one state that does not want the federal estate tax to go away as their budget includes the funds collected from the state tax.

Another state that has come a long way in changing their exemption amount is New Jersey. Previously, anyone that died and had a taxable estate in excess of \$625,000 was subject to the state tax. Then New Jersey decided to increase the exemption which assisted a lot of families as the higher exemption eliminated families from paying the state tax. Currently, New Jersey has a \$2,000,000 exemption, like Massachusetts.

However, in 2018, New Jersey is going one step further and completely eliminating the estate tax. The result is that New Jersey will not receive any funds from those dying in 2018 with an estate. The logic is that New Jersey wants to encourage wealthy individuals to relocate and obtain residency in its State. In return, New Jersey will experience an inflow of money into its state economy. New Jersey estimates the inflow of wealth will offset the lost funds of the estate tax.

In addition to estate tax exemptions in various states, a lot of states also have an inheritance tax. This is a tax on living individuals that inherit funds from deceased individuals, rather than receiving taxes from a deceased person's estate. States such as New Jersey, Kentucky and Iowa have inheritance taxes that range from 10% to a high of 16%, typically based upon the relationship between the person inheriting property and the deceased. Such states also have exemptions to the inheritance tax.

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As can be seen from the above, a change in the estate tax at the federal level can impact state's views on state estate taxes and state inheritance taxes. If you would like to know your state's estate tax exemptions and/or rates or inheritance tax rates, you can look it up on your state web site or contact the Center and we would be happy to inform you on the matter. Either way, it is important to know not just the federal estate tax exemptions and rates, but also the state estate tax and inheritance tax rates.

If you have questions, please call us at 618-997-3436 or visit us at www.taxplanning.com.

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Basi, Basi & Associates at The Center for Financial, Legal & Tax Planning, Inc.

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