

Current State of State Death Taxes

Under current law, the federal government will not tax an individual's estate if it is worth less than \$11,580,000. However, it is important to note that many states will tax estates worth far less. Individuals may overlook planning and liquidity funding if they will not face federal estate tax exposure – however this may underestimate the potential state estate or inheritance tax exposure in states where the individual resides or owns real property.

The American Taxpayer Relief Act of 2012 made the Deceased Spouse Unused Exemption ("DSUE"), or portability as it is referred to commonly, permanent. Therefore, if married, the surviving spouse can apply the deceased spouse's unused federal exemption to gifts made during the surviving spouse's lifetime or bequests made at death. Currently, only Hawaii and Maryland offer portability at the state level.

As fiscally challenged states look for ways to balance budgets, they may move to create, reinstate or increase existing estate and inheritance taxes. Life insurance (owned outside the taxable estate) remains an effective method of providing liquidity, without further inflating the value of the taxable estate for either federal or state tax purposes.

State Estate Tax and Chart

Applies to the taxable value of the decedent's total estate (bequests to spouses and charities are generally exempt). In most states with an estate tax, the state estate tax bill is subtracted from the value of the gross taxable estate before federal estate taxes are calculated. The estate taxes are paid before money is distributed to heirs.

State	2020 Exemption	State	2020 Exemption
Connecticut	\$5.1 million	Minnesota	\$3 million
District of Columbia	\$5.6 million	New York	\$5.74 million
Hawaii	\$5.49 million	Oregon	\$1 million
Illinois	\$4 million	Rhode Island	\$1.562 million
Maine	\$5.6 million	Vermont	\$2.75 million
Maryland	\$5 million	Washington	\$2.193 million
Massachusetts	\$1 million		

State Inheritance Tax and Chart

Applies to bequests made to different classes of beneficiaries (bequests to spouses and lineal heirs are generally taxed at lower rates, bequests to more distant relatives or unrelated individuals are generally taxed at higher rates). Inheritance tax is paid by the heirs, not the deceased's estate.

State	Are Spouses Exempt?	Are Descendants Exempt?	Are Domestic Partners Exempt?	Top Tax Rate
Iowa	Yes	Yes	No	15%
Kentucky	Yes	Yes	No	16%
Maryland	Yes	Yes	Certain transfers	10%
Nebraska	Yes	No	No	18%
New Jersey	Yes	Yes	Yes	16%
Pennsylvania	Yes	No	No	15%

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State laws change frequently and the information above may not reflect recent changes in the law. Consult with a tax and legal advisor regarding specific situation.