Don't Let State Inheritance or Estate Taxes Surprise You

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The Federal estate tax exemption for 2022 is $12.06 million per person. For those individuals who pass away this year, there will be no Federal estate tax owed if their assets are less than $12.06 million. Although many people will escape the Federal estate tax due to the high exemption, there are several states that impose an estate or inheritance tax and the state exemptions are not nearly as high. It is important to keep this in mind when estate planning as the impact of these state taxes could change your plans.

Currently, there are 17 states that levy tax on estates, inheritances, or both.

Estate Tax: Connecticut, Hawaii, Illinois, Maine, Massachusetts, Minnesota, New York, Oregon, Rhode Island, Vermont, and Washington (Washington, D.C., also)

Inheritance Tax: Iowa, Kentucky, Nebraska, New Jersey, and Pennsylvania

Both Estate and Inheritance Tax: Maryland

To illustrate some of the nuances of the state taxes and how it could impact your estate plan, we will look at the Kentucky Inheritance Tax. This tax is imposed on certain individuals that receive property from a Kentucky resident who has deceased. If you are a surviving spouse, parent, child, grandchild, brother, sister, half-brother or half-sister and you receive a Kentucky inheritance, you are exempt from this tax. All others, including, nieces, nephews, daughters and sons-in-law, aunts, uncles, great-grandchildren, and non-familial individuals will owe Kentucky inheritance tax, up to 16% on assets received from a decedent. The maximum exemption is only $1,000. How can you plan around this tax? Kentucky does not have a gift tax, so one possibility is gifting the property while you are still living. Another possibility is to leave the inheritance to an exempt person who may be able to gift to a non-exempt person, i.e., leave the inheritance to your son who can then gift it to his wife, your daughter-in-law.

Because each state's inheritance and / or estate tax will look different, it is important to review your estate documents and review the state estate and inheritance tax laws of your resident state regularly, and we are here to help. Please reach out to us with questions or for assistance with estate planning questions.

IMPORTANT DISCLOSURE INFORMATION