

Death Taxes Are Not Dead for Residents of Some States

Many states impose their own estate or inheritance tax system (death taxes). Consequently, in states with independent death taxes, individuals with modest estates can owe thousands of dollars of state death taxes even if the federal tax does not apply.

The states listed in the chart below have death taxes* that are independent of the federal tax system.

State	Tax Type	Estate Exemption	Top Rate
Connecticut	Estate	\$3,500,000	12%
Delaware	Estate	\$3,500,000	16%
Indiana	Inheritance	Varies	20%
Iowa	Inheritance	Varies	15%
Kentucky	Inheritance	Varies	16%
Maine	Estate	\$1,000,000	16%
Maryland	Estate & Inheritance	\$1,000,000	15%
Massachusetts	Estate	\$1,000,000	16%
Minnesota	Estate	\$1,000,000	16%
Nebraska	Inheritance	Varies	18%
New Jersey	Estate & Inheritance	\$675,000	16%
New York	Estate	\$1,000,000	16%
North Carolina	Estate	\$3,500,000	16%
Ohio	Estate	\$338,333	7%
Oregon	Estate	\$1,000,000	16%
Pennsylvania	Inheritance	Varies	15%
Rhode Island	Estate	\$850,000	16%
Tennessee	Estate	\$1,000,000	9.5%
Vermont	Estate	\$2,000,000	16%
Washington	Estate	\$2,000,000	19%
Washington D.C.	Estate	\$1,000,000	16%

*As of 1/1/2010

State Death Taxes and Exemptions

While the focus in Congress has centered on the federal death tax system, state death taxes have emerged as the new concern for most individuals. A little background may help in the understanding of when they apply.

There are two types of state death taxes. An inheritance tax is an assessment made on the portion of an estate received by a beneficiary. It differs from an estate tax, which is a tax on the entire estate and is levied before it passes to the beneficiaries.

The estate exemption is the amount of property going to a beneficiary, other than a spouse or charity, not subject to tax. In general, in an estate tax system, there is one exemption, and an estate value in excess of the exemption is subject to tax. In an inheritance tax system, there may be multiple exemptions. The estate beneficiaries are divided up based on each person's relationship to the deceased, with larger exemptions going to those with the closest ties.

As can be seen from this brief description, the rules for state death taxes are complex, and they can be ever-changing. So it's important to consult with legal and tax advisors that specialize in estate planning.

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