

HOW DO STATE ESTATE AND INHERITANCES TAX WORK?

Seventeen states and the District of Columbia have either an estate tax or an inheritance tax. Two others have both. Before 2001, when a federal credit offset the cost of state taxes, all states taxed the transfer of wealth at death.

In 2000 when all 50 states and the District of Columbia had an estate or inheritance tax, revenues from those taxes totaled \$11 billion. In 2013, when only 19 states and D.C. had such taxes, revenues were \$5 billion.

ESTATE OR INHERITANCE TAX?

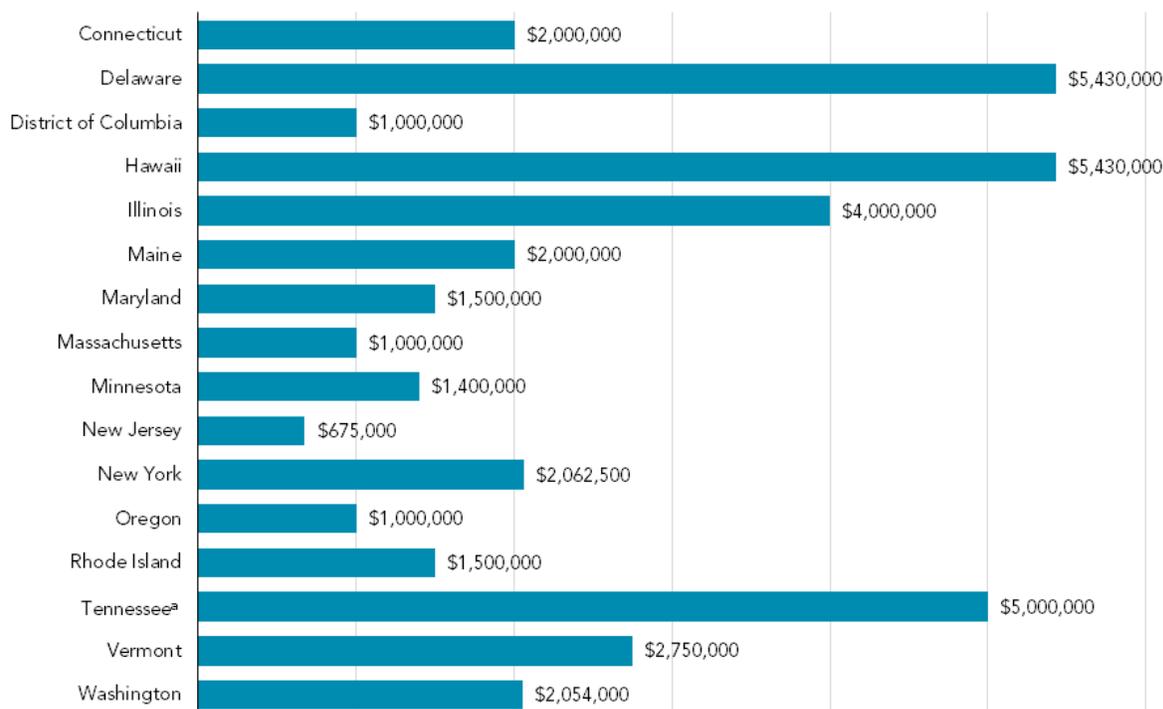
Estate tax

An estate tax is paid by the estate itself on the transfer of property at the time of a person's death. States must allocate assets across jurisdictions if the deceased person lived or owned property in multiple jurisdictions. Many of the states with estate taxes use the federal estate tax value as a starting point but vary in the exemptions allowed. The federal government exemption is \$5.43 million in 2015, and current state exemptions are either equal to or less than the federal exemption.

Only 15 states and DC have estate taxes (figure 1). By contrast, in 2000, all states had estate taxes equal to the federal "credit for state death taxes" (CSDT); many of these states still have these taxes on their books in case the federal credit is restored.

FIGURE 1

Exemption Amounts for States with Estate Taxes 2015



Source: Tax Policy Center.

Notes: The federal exemption threshold is \$5,430,000. Hawaii and Delaware use the same threshold.

(a)Tennessee has repealed its estate tax effective 2016.

Inheritance tax

An inheritance tax is similar to the estate tax but the tax depends on the heir's relationship to the decedent. The tax is levied on the estate of residents or the in-state property of nonresidents at the time of death. There are exemptions for surviving spouses in all of the states with inheritance taxes; some also exempt direct descendants. Iowa, Kentucky, Maryland, Nebraska, New Jersey, and Pennsylvania have inheritance taxes. Maryland and New Jersey have both an estate and inheritance tax.

BACKGROUND

From 1924 to 2005, the federal government shared estate tax revenue with the states by allowing a credit for state estate and inheritance taxes. From 1924 to 1954, the credit was equivalent to 25 percent of the federal estate tax. After 1954, estates could claim a credit for state estate and inheritance taxes according to a progressive schedule with a top rate of 16 percent of the taxable value of the estate. As a consequence, rather than establishing unique taxes, states enacted estate taxes that equaled the maximum credit. In 2000, the last year the full credit was available, the state tax credits totaled \$6.4 billion.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) phased out the credit, replacing it with a deduction that was less generous. The estate tax in many states was directly linked to the amount of the credit, and estate taxes would go to zero if they did not “decouple” from the federal law. In fact, 30 states let their tax go away by doing nothing. Fifteen states and DC did decouple, establishing separate estate taxes; five states explicitly repealed their taxes.

All of the provisions of EGTRRA were scheduled to expire in 2010 but were extended to 2012. In 2012, Congress did not address EGTRRA until the very end of the year, creating a fiscal cliff for most federal taxes and the possibility that the federal credit for state death taxes would return. In the end, Congress permanently replaced the state credit with a deduction for estate taxes paid to the states.

RECENT DEVELOPMENTS

Several states with estate or inheritance taxes have proposed or enacted changes. Indiana recently repealed its inheritance tax, while Kansas, North Carolina, Ohio, Oklahoma, and Tennessee repealed their estate taxes. Delaware, Hawaii, and Maine adjusted their exemptions to conform to the federal exemption. The District of Columbia will conform to the federal exemption if revenues are higher than projected. Maryland, Minnesota, and Rhode Island have all recently increased their exemptions.

DATA SOURCES

Internal Revenue Service, [“Estate Taxes by State 1999–2013.”](#)

U.S. Census Bureau, Annual Survey of State and Local Government Finances, Government Finances, Volume 4, and Census of Governments (1977-2013).

US Census Bureau, [State & Local Government Finance.](#)

The Urban Institute-Brookings Institution Tax Policy Center. [State and Local Finance Data Query System.](#)

FURTHER READING

Francis, Norton. 2013. [“Back from the Dead: State Estate Taxes after the Fiscal Cliff.”](#) Washington, DC: Urban Institute.

Harris, Benjamin. 2013. [“Estate Taxes After ATRA.”](#) *Tax Notes*, February 25.