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State-Level Estate and Inheritance Taxes

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The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) phases out the federal estate tax by 2010, although only for one year. Before this year's August recess, Congress considered whether to cut the federal estate tax on a permanent basis. EGTRRA, however, had a more immediate effect on estate, inheritance, and gift taxes collected by the states.

Before EGTRRA, the federal estate tax allowed a tax credit against so-called state death taxes. Almost all states collected a pickup tax that was equivalent to the federal credit, while a few states imposed additional taxes. The pickup tax was a painless source of revenue for the states because the federal credit completely offset the state tax.

EGTRRA phased out the state death tax credit between 2002 and 2004. Currently, state taxes may be deducted from the estate, but they are not rebated via credit. As of January 2006, 14 states had decoupled their taxes from the federal estate tax but kept a tax in force, 3 replaced a pickup tax with a new stand-alone tax, and 7 retained their existing stand-alone taxes.[1] The remaining 26 states have no estate, inheritance, or gift taxes.

The table shows how the estate tax has decreased in importance. In 2000, before EGTRRA's passage, estate and inheritance tax revenues averaged 1.43 percent of states' total tax receipts. By 2005 the average fell to 0.7 percent. States that retained a tax collected 1.1 percent of revenues from that source, while states that dropped their taxes still had small residual collections because of time lags between deaths and the filing of estate or inheritance tax returns.

[1]Elizabeth C. McNichol, "State Taxes on Inherited Wealth Remain Common: 24 States Levy an Estate or Inheritance Tax," Center on Budget and Policy Priorities, May 31, 2006, http://www.cbpp.org/5-31-06sfp.htm. Harley Duncan, executive director of the Federation of Tax Administrators, provided additional information via e-mail.

Estate, Inheritance, and Gift Tax Receipts As a Percentage of Total Tax Receipts, By State, 2000 vs. 2005

Eliminated Estate and Inheritance Taxes by January 2006			Retained Estate and Inheritance Taxes		
State	**2000**	**2005**	**State**	**2000**	**2005**
Alabama	1.04	0.19	Connecticut	2.34	2.29
Alaska	0.17	0.08	Illinois	1.53	1.14
Arizona	1.05	0.30	Indiana	1.39	1.12
Arkansas	0.49	0.21	Iowa	1.92	1.34
California	1.11	0.22	Kansas*	1.30	0.93
Colorado	0.87	0.30	Kentucky	0.97	0.69
Delaware	1.93	0.23	Maine	2.21	1.05
Florida	2.98	0.87	Maryland	1.52	1.36
Georgia	1.10	0.27	Massachusetts	1.03	1.42
Hawaii	0.69	0.29	Minnesota	0.62	0.43
Idaho	0.47	0.30	Nebraska	0.64	0.36
Louisiana	1.47	0.35	New Jersey	2.68	2.27
Michigan	0.82	0.43	New York	2.53	1.79
Mississippi	0.47	0.21	North Carolina	1.23	0.83
Missouri	1.52	0.41	Ohio	0.79	0.25
Montana	1.35	0.22	Oklahoma*	1.50	1.10
Nevada	2.04	0.41	Oregon	0.74	0.87
New Hampshire	3.61	0.56	Pennsylvania	3.57	2.55
New Mexico	0.43	0.11	Rhode Island	1.68	1.23
North Dakota	0.52	0.15	Tennessee	1.19	0.86
South Carolina	0.68	0.26	Vermont	0.91	0.84
South Dakota	3.07	0.40	Virginia*	1.19	0.94
Texas	1.02	0.31	Washington	0.66	0.00
Utah	1.62	0.06	Wisconsin	1.06	0.84
West Virginia	0.63	0.11			
Wyoming	5.27	0.18			
Average	*1.40*	*0.29*	*Average*	*1.47*	*1.10*
Average, All States	**1.43**	**0.68**			

*Kansas is scheduled to repeal its tax in 2009; Oklahoma is scheduled to repeal its tax in 2010; and a bill is advancing in Virginia that would repeal its tax on July 1, 2007.

Source: U.S. Census Bureau, Annual Survey of State and Local Government Finances, State Government Tax Collections (2000, 2005).