Don't Forget About State Estate Taxes
(Particularly in New York)

Whether you're considered "wealthy" or not is dependent upon your reference point. We know that a common reference point, and a common topic of discussion in politics and mainstream media, is the application of estate taxes. Generally, Americans with estates over a certain threshold amount may be subject to federal estate taxes regardless of where they live. That threshold is known as the basic exclusion amount (and sometimes known as the "applicable exclusion amount" or federal "estate tax exemption amount"). We'll refer to it simply as the exemption amount.

Only taxable estates over the federal exemption amount are subject to federal estate taxes. The federal exemption amount is usually fairly high and reachable only by the very wealthy. For comparison, in 2021 the federal exemption amount is $11.7 million per person ($23.4 million for a married couple). This exemption amount, however, is subject to constant change due to politics and economic conditions. There are also sunset provisions in existing laws that make this exemption amount temporary. For example, the current exemption amount will automatically revert back to $5 million plus inflation factors in 2026 by law, if not changed sooner by new legislation.

Did you know, however, that even if you're not wealthy enough to have potential federal estate tax liabilities upon death, depending upon where you live, you may be subject to state estate and/or inheritance taxes? Both can diminish the amount of the inheritance that you wish to leave to children, other family members, friends and community.

As of 2021, there are twelve states and the District of Columbia that impose a state estate tax, and each state has its own exemption amount and tax rate structure. In addition, another seven states impose an inheritance tax, which also varies state to state, but is generally applied to inheritances by non-lineal descendants. You can see in the charts on page 2 that Maryland has both, an estate and inheritance tax, but Maryland is the only state that provides for a surviving spouse to use the deceased spouse's unused exemption. That's known as "portability" of the exemption amount and is similar to federal law. And, just like federal law, state laws are also subject to constant change because of politics and economic conditions.

States with State Estate Tax	2021 State Estate Tax Exemption Amount	Maximum Tax Rate
Connecticut	$7,100,000	12%
District of Columbia	$4,000,000	16%
Hawaii	$5,490,000	20%
Illinois	$4,000,000	16%
Oregon	$1,000,000	16%
Maine	$5,870,000	12%
Maryland	$5,000,000	16%
Massachusetts	$1,000,000	16%
Minnesota	$3,000,000	16%
New York	$5,930,000 (cliff at 105%)	16%
Rhode Island	$1,595,156	16%
Vermont	$5,000,000	16%
Washington	$2,193,000	20%

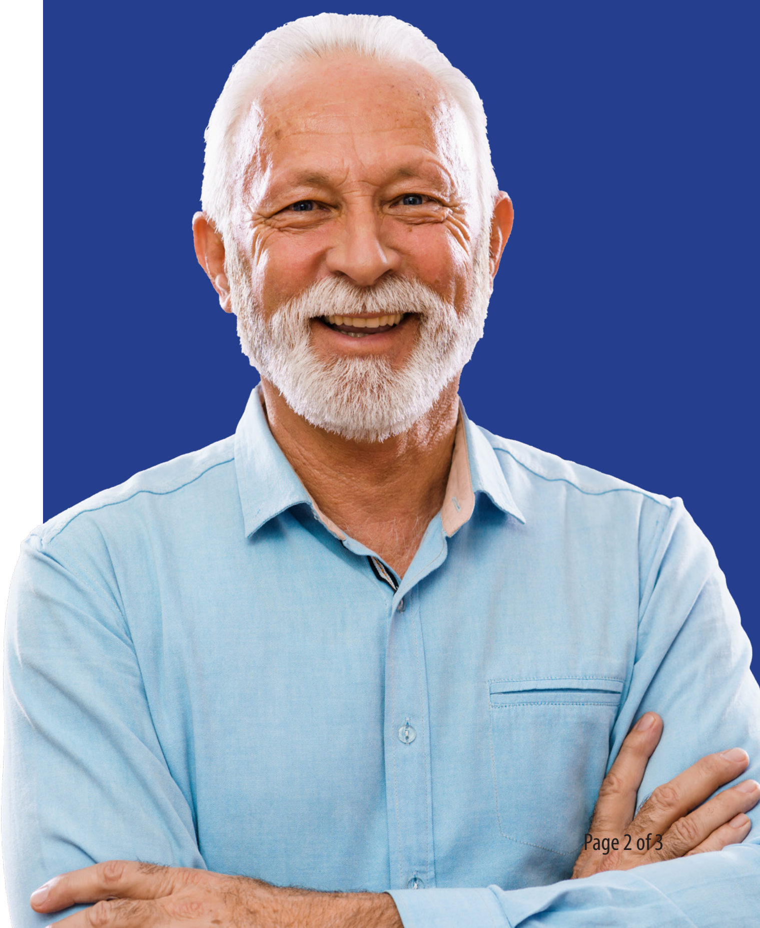
States with State Inheritance Tax	Maximum Tax Rate
Iowa	15%
Kentucky	16%
Maine	10%
Nebraska	18%
Maryland	10%
New Jersey	16%
Pennsylvania	15%

General estate tax and inheritance tax-planning strategies usually involve wealth transfer and gift techniques to reduce the taxable estate and to avoid at-death inheritances. However, gifts made in excess of the federal exemption amount are subject to federal gift taxes. Gifts made in excess of a state exemption amount are not subject to state gift taxes with one exception: Connecticut is the only state that has a state gift tax imposed on gifts exceeding its state exemption amount.

New York's estate tax regime is unlike the federal or any other state. In general, only that portion of the estate over the exemption amount is subject to estate tax. New York's estate tax regime, however, is a "cliff" tax. Once your taxable estate exceeds 105 percent of the exemption amount, the New York estate tax applies to the entire estate from the first dollar.

Let's look at an example:

John is a New York resident. He is single and dies on January 5, 2021. If his taxable estate is $5,930,000 or less, no federal or New York estate tax is due. However, if the estate is valued at $6,230,000, that exceeds the New York exemption amount by $300,000, which is more than 5 percent over the exemption amount of $5,930,000. As a result, the New York estate tax would be assessed on the entire $6,230,000. In any other state, the estate would pay estate tax only on the amount in excess of the exemption amount.



If estate and inheritance taxes can't be avoided, fortunately there is an alternative. One of the most common and simplest methods of replacing wealth lost to taxes is the purchase of life insurance inside of an Irrevocable Life Insurance Trust ("ILIT"). The beneficiaries of the ILIT are typically the spouse, children or other intended heirs of the individual subject to estate or inheritance taxes. The insurance proceeds can provide liquidity to help pay the taxes, or it may act as a replacement of the wealth lost to taxes.

The bottom line is that even if you're not wealthy enough to be subject to federal estate taxes, if you live in one of the 18 states and the District of Columbia that impose state estate and/or inheritance taxes, what you leave to your family, friends, community and loved ones may be diminished by these taxes, so you'll need a plan to minimize or avoid these taxes. Your Security Mutual life insurance advisor, working in tandem with your CPA and attorney, can help you to plan for estate and/or inheritance taxes and implement strategies that will help you to avoid or minimize them, or to replace wealth lost to taxes. Contact your Security Mutual life insurance advisor today to get the planning process started.

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