Does Your Estate Qualify for the Federal Exemption? – Don't Forget State Estate Taxes

With the doubling of the federal estate tax exemption, some individuals may think they won't have any estate taxes due at their death. However, 12 states and the District of Columbia impose their own estate taxes — two on estates as small as $1 million! State estate and inheritance tax rates can go as high as 20 percent and can vary depending upon the state, the size of the estate and the beneficiaries of the estate.

Often estates are illiquid — with family wealth consisting primarily of undeveloped or farm land, commercial real estate or a family business.

Even a $10 Million Estate Can Have a Hefty Tax Bill

The following chart details the estimated state estate taxes (as of January 2021) on a $10 million estate for the states that impose an estate tax. In order to minimize the impact of state estate taxes for a married couple, the estate is divided in half before applying that state's tax table. The state estate tax result is then multiplied by two. This methodology ensures that both spouses can take advantage of the highest exemption possible, and it gives them the benefit of using a tax table run-up for both spouses.

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State	Married	Single
Connecticut	$0	$324,400
District of Columbia	$224,000	$792,000
Hawaii	$0	$531,400
Illinois	$571,429	$926,923
Maine	$0	$352,000
Maryland	$0	$800,000
Massachusetts	$783,200	$1,040,600
Minnesota	$520,000	$910,000
New York	$0	$1,067,600
Oregon	$850,000	$1,102,500
Rhode Island	$642,220	$997,110
Vermont	$0	$800,000
Washington	$722,100	$1,257,365

The Bottom Line

Just because an estate may not have to pay federal estate taxes doesn't mean that there aren't state estate taxes that can have a substantial impact on the estate, particularly if the estate lacks sufficient liquidity. Finding the cash to pay state estate taxes within nine months (six months in Connecticut) of the taxpayer's death can place a severe burden on the estate, often triggering the sale of assets that the family would otherwise have preferred to retain. Advance planning, particularly leveraging life insurance that's owned outside of the estate, provides an important source of liquidity when it is needed most — at the death of the insured.

Estate Tax Planning — And a Whole Lot More

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