

Does Your State Have an Estate or Inheritance Tax?

October 10, 2023

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In addition to the federal [estate tax](#), with a top rate of 40 percent, some states levy an additional [estate tax](#) or [inheritance tax](#). Twelve states and the District of Columbia impose estate taxes and six states impose inheritance taxes. Maryland is the only state to impose both an estate tax and an inheritance tax.

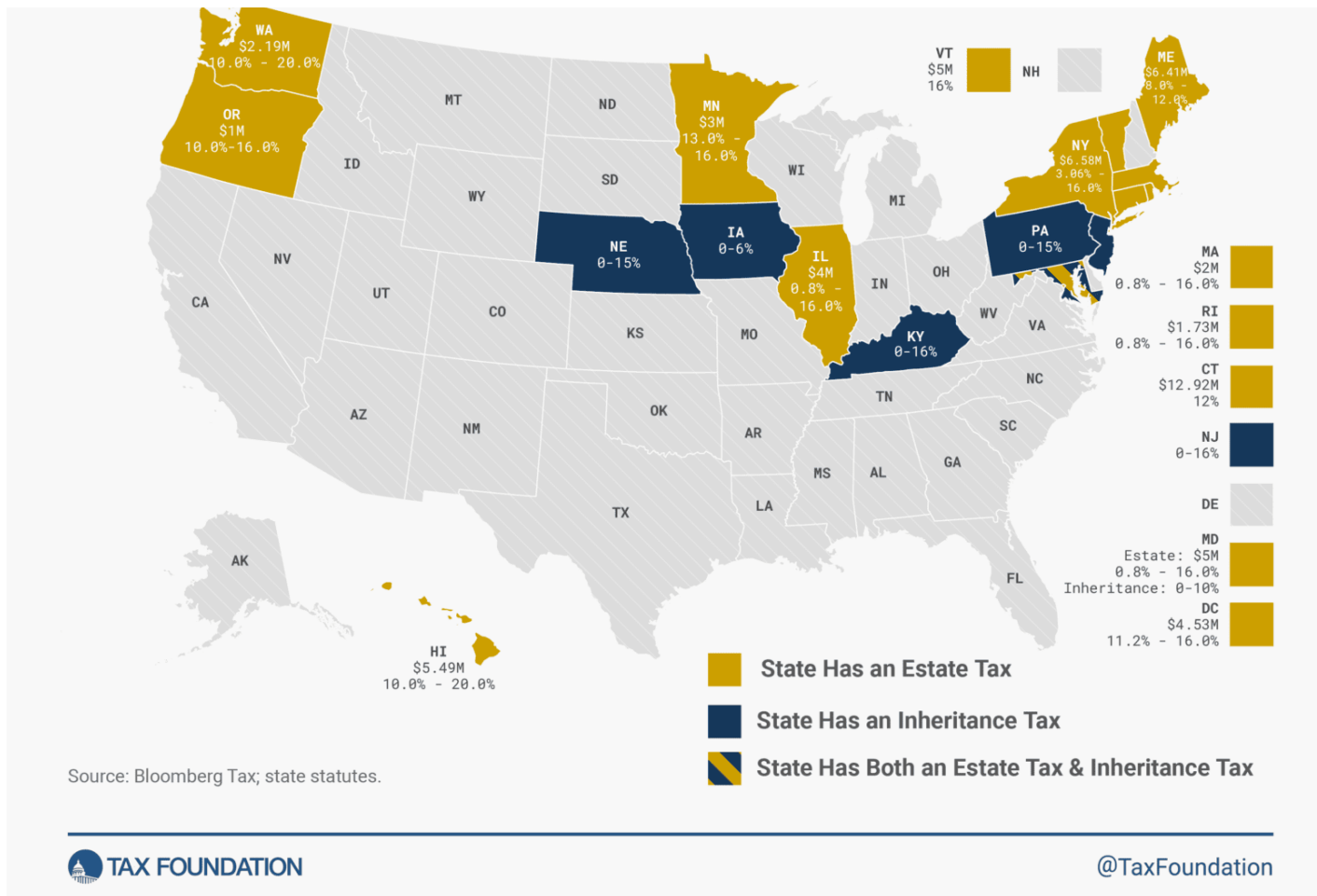
Estate taxes are paid by a decedent's estate before assets are distributed to heirs and are thus imposed on the overall value of the estate. Inheritance taxes are remitted by the recipient of a bequest and are thus based on the amount distributed to each beneficiary.

In most states, estate taxes are progressive: the tax rate increases with the total value of the decedent's assets. Two states, Connecticut and Vermont, have flat estate taxes with a single tax rate. Hawaii and Washington have the highest top rates in the nation at 20 percent. Eight states and the District of Columbia are next with a top rate of 16 percent. All states impose certain exemptions that prevent smaller estates from being subject to these taxes. Massachusetts has the lowest exemption at \$1 million, and Connecticut has the highest exemption at \$12.92 million.

Of the six states with inheritance taxes, Kentucky and New Jersey have the highest top rate of 16 percent. Iowa is phasing out its inheritance tax, with full repeal scheduled for 2025, with the tax's top rate at 6 percent in 2023. All six states exempt spouses, and some fully or partially exempt immediate relatives. Compare state estate tax rates and state inheritance tax rates below.

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State Estate & Inheritance Tax Rates and Exemptions in 2023



In 1926, the federal government began offering a generous federal credit for state estate taxes, meaning taxpayers were paying the same amount in estate taxes whether their state levied the tax or not. This made estate taxes an attractive option for states. After the federal government fully phased out the state estate tax credit, some states stopped collecting estate taxes by default, as their provisions were directly linked with the federal credit, while others responded by repealing their tax legislatively.

In the Tax Cuts and Jobs Act of 2017, the federal government raised the estate tax exemption from \$5.49 million to \$11.18 million per person and started adjusting it to inflation (in tax year 2023, the federal exemption is \$12.92 million), though this provision expires December 31, 2025. Initially, some states conformed to this higher exemption, though all but Connecticut have since decoupled from it, offering lower exemptions than those permitted by the federal government.

Most states have been moving away from estate or inheritance taxes or have raised their exemption levels, as these taxes hurt states' competitiveness and create incentives to avoid paying them, especially for wealthy taxpayers. Delaware repealed its estate tax at the beginning

of 2018. New Jersey finished phasing out its estate tax at the same time, and now only imposes an inheritance tax. Vermont finished phasing in an exemption increase in 2021, bringing the exemption to \$5 million that year, compared to \$4.5 million in 2020. In 2023, Maine increased its estate tax exemption from \$6.01 million to \$6.41 million, while Connecticut finished phasing in an increase to its exemption, matching the federal estate tax exemption, and simultaneously transitioned to the flat tax rate.

Iowa is phasing out its inheritance tax by reducing its rates by an additional 20 percent each year (from the baseline rates) until 2025, when the tax will be fully eliminated. The top rate in 2020 was 15 percent, but a reduction of 60 percent brings the top rate to 6 percent in 2023. Starting in 2023, Nebraska lowered its inheritance tax rates and increased exemption amounts for different categories of heirs, bringing the top rate down from 18 percent to 15 percent.

The District of Columbia moved in the opposite direction, lowering its estate tax exemption from \$5.8 million to \$4 million in 2021, but simultaneously dropping its bottom rate from 12 to 11.2 percent. An inflation adjustment then brought the exemption to \$4.53 million for 2023. Most recently, Massachusetts enacted legislation on October 4th which, among other things, raises the state's estate tax exemption from \$1 million—tied for the lowest with Oregon—to \$2 million for calendar year 2023 and thereafter.

Reforms are possible in other states as well. In Oregon and Illinois, several proposals have been made to substantially increase the estate tax exemption to \$12 million or above. This discussion will likely continue.

Estate and inheritance taxes are burdensome. They disincentivize investment and can drive high-net-worth individuals out of state. They also yield estate planning and tax avoidance strategies that are inefficient, not only for affected taxpayers but also for the economy at large. The handful of states that still impose them should consider gradually eliminating them or at least conforming to federal exemption levels.

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State Estate & Inheritance Tax Rates and Exemptions in 2023

State	Estate Tax Exemption	Estate Tax Rates	Inheritance tax Rates
Connecticut	\$12,920,000	12%	
Hawaii	\$5,490,000	10.0% - 20.0%	
Illinois	\$4,000,000	0.8% - 16.0%	
Iowa			0-6%
Kentucky			0-16%
Maine	\$6,410,000	8.0% - 12.0%	
Maryland	\$5,000,000	0.8% - 16.0%	0-10%
Massachusetts	\$2,000,000	0.8% - 16.0%	
Minnesota	\$3,000,000	13.0% - 16.0%	
Nebraska			0-15%
New Jersey			0-16%
New York	\$6,580,000	3.06% - 16.0%	
Oregon	\$1,000,000	10.0%-16.0%	
Pennsylvania			0-15%
Rhode Island	\$1,733,264	0.8% - 16.0%	
Vermont	\$5,000,000	16%	
Washington	\$2,193,000	10.0% - 20.0%	
District of Columbia	\$4,528,800	11.2% - 16.0%	

Notes: Exemption amounts are shown for state estate taxes only. Inheritance taxes are levied on the posthumous transfer of assets based on the relationship to the decedent; different rates and exemptions apply depending on the relationship. CT's exclusion now matches the federal exemption. Iowa is phasing out its inheritance tax, with full repeal scheduled for 2025.

Sources: Bloomberg Tax; state statutes