

State Estate Tax, the Other "Death Tax"

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Much has been written in the press about the estate tax and the new higher exemption amounts. In 2011 and 2012 an individual's estate can own up to \$5 million in assets and not owe any federal estate taxes. One less discussed fact is that this may not be the case under state law.

Like income tax law, each of the 50 states have differing estate law. Some states may have no applicable law. Arizona (our state of residency) has no estate or inheritance tax. This is not the case in many other states that still have a "death" tax on the books.

Some states have an estate tax which taxes the individual's estate if the value exceeds a stated exemption amount. Other states have an inheritance tax which taxes the beneficiary on the receipt of assets from a deceased person. All the states' laws vary, so each state needs to be reviewed on a case by case basis.

It's important to check the estate and inheritance law in both your state of residency and in any state where you own property. You can owe tax based on your residency in the state or because you own assets that reside in the state. A resident of Arizona (no estate tax state) can still be subject to a state estate tax on property located elsewhere. Most states tax real or personal property based on the property's physical location. Intangible property is usually taxed to your state of residence but there may be exceptions.

So it's possible to die owing not the feds but a state instead! Currently, the following states impose a separate state estate tax in 2011:

State	Exemption	Tax rate on Excess
Connecticut	\$2.0 million	7.2-12%
Delaware	\$5.0 million	16%
District of Columbia	\$1.0 million	16%
Hawaii	\$3.5 million	16%
Illinois	\$2.0 million	16%
Maine	\$1.0 million	16%
Maryland	\$1.0 million	16%
Massachusetts	\$1.0 million	16%
Minnesota	\$1.0 million	41%
New Jersey	\$675,000	16%

New York	\$1.0 million	16%
North Carolina	\$5.0 million	16%
Ohio	\$338,333	7%
Oregon	\$1.0 million	16%
Rhode Island	\$859,333	16%
Vermont	\$2.75 million	16%
Washington	\$2.0 million	19%

Additionally, these states have some kind of inheritance tax:

State	Exemption	Tax rate on Excess
Indiana	\$100	20%
Iowa	Zero	15%
Kentucky	\$500	16%
Maryland	\$150	10%
Nebraska	\$10,000	18%
New Jersey	Zero	16%
Pennsylvania	Zero	15%
Tennessee	\$1.0 million	9.5%

Be sure to check the current state law before taking any action as many states have legislation pending. Your professional Henry & Horne, LLP estate advisor can assist you and your attorney with planning strategies for minimizing the effect of the state estate tax. As always, your Henry & Horne, LLP advisor would be happy to answer any questions.

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