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## **BACKGROUND: ESTATE AND INHERITANCE TAXES IN CONNECTICUT AND OTHER STATES**

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Connecticut's estate tax has been an issue in the General Assembly since its passage in 2005. This report provides background on the historical relationship between federal and state estate taxes and the effect of 2001 federal estate tax changes on state estate taxes. It also summarizes the types of estate and inheritance taxes, and the tax rates and taxing thresholds in effect in 2009 in Connecticut and the 21 other states that have such taxes.

### **ESTATE AND INHERITANCE TAXES**

#### ***Two Taxes Explained***

The estate tax and the inheritance tax are taxes imposed on the value of property a person bequeaths to his heirs. These types of taxes are referred to as transfer taxes or, because they are imposed when someone dies, as "death" taxes.

The estate tax is imposed on the total value (after deductions and exemptions) of a person's real and personal property ("estate") at his or her death. The executors of the estate are liable for paying an estate tax. An inheritance tax is a tax on each heir's right to receive the property transferred to him or her. Thus, it is calculated separately for each heir and depends on the value of the heir's inheritance.

The federal government imposes an estate tax, as do 17 states. Seven states have inheritance taxes. Two states, Maryland and New Jersey, impose both types of tax. Connecticut had both taxes until 2005, when the state's inheritance tax, known as the "succession tax," was repealed. There is no federal inheritance tax.

The federal government also imposes "gift tax" on property transfers to beneficiaries during a person's life. Under federal law, gifts over a certain size count against the lifetime amount exempted from estate tax upon the person's death.

## **THE EVOLUTION OF FEDERAL AND STATE TAXES ON INHERITED WEALTH**

### ***Before 2001***

Taxes on inherited wealth have long been a feature of the U.S. federal tax system. In addition to raising revenue, such taxes are designed to prevent accumulation and concentration of extreme wealth. After imposing various temporary estate taxes during the 18<sup>th</sup> and 9<sup>th</sup> centuries, Congress enacted a permanent federal estate tax in 1916.

State taxes on inherited wealth were likewise common in the 19<sup>th</sup> century. Connecticut, for example, first enacted a state inheritance tax in 1889. By the time Congress adopted the permanent federal tax in 1916, only five states had no state estate or inheritance tax: Alabama, Florida, Mississippi, New Mexico, and South Carolina. Three of the five enacted state taxes shortly after 1916: Mississippi (1918), New Mexico (1919), and South Carolina (1922).

In the early 1920s, Florida began a campaign to lure wealthy people to the state by promoting not just its sunny climate but also its low taxes, especially its lack of a state death tax. Other states became so concerned about the interstate competition that they held three national conferences to devise a method for preserving state estate and inheritance taxes. The solution they arrived at was to petition Congress for federal relief. In 1924, Congress responded by passing a dollar-for-dollar tax credit against the federal estate tax for state death taxes paid.

The federal credit allowed states to share estate tax revenue with the federal government without increasing the net tax burden on estates. It also served to equalize the impact of estate taxes among states. All 50 states eventually adopted state estate taxes equal to the federal credit. Nevada, the last holdout, passed its tax in 1987.

These state estate taxes are referred to as “pick-up” or “sponge” taxes because they are set at the amount of the federal credit for each taxable estate. The federal credit amount depended on the size of the “adjusted taxable estate,” which is the federally taxable estate minus \$60,000. The credit percentage increased as the size of the estate increased. State pick-up estate tax rates, thresholds, and deductions were typically linked to the federal estate tax law, incorporating the federal provisions by reference.

In 2001, pick-up estate taxes were the only state death taxes levied in 38 states. Several states also had separate inheritance taxes not linked to the federal tax. State inheritance taxes commonly impose a tax on estates according to both their value and the relationship of the heirs to the deceased person.

### **2001 Federal Changes**

Under the federal estate tax law in effect at the beginning of 2001, the threshold for a taxable estate was \$675,000 and the top tax rate for the largest estates (over \$17,184,000) was 55%. There was also a 5% surcharge on estates over \$10 million. The taxable estate threshold was scheduled to rise to \$700,000 for 2002 and 2003, \$850,000 for 2004 and 2005, and \$1 million for 2006 through 2009. These estate tax thresholds also applied to the state pick-up taxes linked to the federal law.

During 2001, Congress passed the Economic Growth and Tax Relief Recovery Act of 2001 (EGTRRA - P.L. 107-134). EGTRRA made major changes in the federal estate tax, including its relationship to state estate taxes. It took effect for deaths on and after January 1, 2002.

The EGTRRA phased out the federal estate tax over the seven years from 2002 through 2009 by gradually (1) reducing the top federal tax rate to 45% and (2) raising the threshold for taxable estates to \$3.5 million. It eliminates the federal estate tax entirely for deaths occurring on or after January 1, 2010, but only for one year. The federal tax “snaps back” to a top rate of 55% and a \$1 million taxable estate threshold for deaths on or after January 1, 2011. The law also eliminated state pick-up taxes by repealing the federal credit over three years and replacing it with a federal tax deduction as of January 1, 2005. Thus, unless a state took action to “decouple” its tax from the federal law, the EGTRRA automatically eliminated state pick-up taxes on that date.

Tables 1 and 2 below show the EGTRRA's annual effect from 2001 through 2011 on hypothetical estates of \$3 million and \$10 million, respectively, in pick-up tax states not decoupled from the federal law.

**TABLE 1: ESTATE TAXES PAYABLE ON \$3 MILLION ESTATES IN PICK-UP TAX STATES**

<b>Year of Death</b>	<b>Total Estate Taxes</b>	<b>State Share</b>	<b>Federal Share</b>
2001	\$1,070,250	\$182,000	\$888,250
2002	930,000	136,000	793,500
2003	925,000	91,000	834,000
2004	704,500	45,000	659,500
2005	695,000	0	695,500
2006	460,000	0	460,000
2007	450,000	0	450,000
2008	450,000	0	450,000
2009	0	0	0
2010	0	0	0
2011	945,000	182,000	763,000

**TABLE 2: ESTATE TAXES PAYABLE ON \$10 MILLION ESTATES IN PICK-UP TAX STATES**

<b>Year of Death</b>	<b>Total Estate Taxes</b>	<b>State Share</b>	<b>Federal Share</b>
2001	\$4,920,250	\$1,067,600	\$3,852,650
2002	4,430,000	800,700	3,629,300
2003	4,355,000	533,800	3,821,200
2004	4,065,000	266,900	3,798,100
2005	3,985,000	0	3,985,000
2006	3,680,000	0	3,680,000
2007	3,600,000	0	3,600,000
2008	3,600,000	0	3,600,000
2009	2,925,000	0	2,925,000
2010	0	0	0
2011	4,795,000	1,067,600	3,727,400

Source: Cooper, Ivimey, and Vincenti, "State Estate Taxes after EGTRRA: A Long Day's Journey into Night," 17 *Quinn. Prob. Law Jour.* 317 (2004). The above examples calculate the federal estate tax assuming that 100% of the unified state credit is available.

### ***State Responses to the 2001 Federal Law***

State responses to the EGTRRA varied. Some states had already decoupled their state estate taxes from the federal law before 2001 and were thus unaffected by the EGTRRA. Other states allowed their pick-up estate taxes to expire but retained their stand-alone inheritance taxes. Several states preserved their pre-EGTRRA pick-up taxes by linking them to the federal credit in effect on a date immediately before the start of the

EGTRRA phase-out, such as December 31, 2001. Many states simply allowed their pick-up estate taxes to phase-out according to the EGTRRA credit phase-out schedule, leaving them with no state-level death tax.

Thus, in 2009, the number of states with state-level death taxes has dropped from 50 to 22. The number will fall to 20 in 2010, when estate taxes in Kansas and Oklahoma are scheduled to expire.

### ***Connecticut's Response to the 2001 Federal Law***

When the EGTRRA was enacted, Connecticut had both a pick-up estate tax and a separate inheritance tax called the succession tax. On January 1, 2001, Connecticut was in the midst of a succession tax phase-out and had already eliminated that tax on estates passing to surviving spouses (Class AA heirs) and lineal parents and descendants such as grandparents, parents, children, and grandchildren (Class A heirs).

Connecticut absorbed the initial EGTRRA-imposed reduction in its pick-up tax, but in 2003, the General Assembly enacted a temporary estate tax payable in lieu of the pick-up tax. The temporary tax was 130% of the pre-EGTRRA federal credit. It applied to estates over \$1 million and to deaths occurring between July 1 and December 31, 2004.

In 2005, Connecticut enacted a new estate tax, replacing its former pick-up estate tax, the temporary estate tax, and the Connecticut succession tax. Because of the phase-out, for deaths occurring during 2004, the succession tax applied only to estates exceeding \$600,000 passing to collateral relatives, such as siblings, nieces, and nephews (Class B heirs) and estates exceeding \$200,000 passing to more remote relatives and unrelated people (Class C heirs). The 2005 law also eliminated the state gift tax on federally taxable gifts over \$25,000. The state was already phasing out the state gift tax on gifts under \$1 million. (See OLR Report [2005-R-0535](#) for a fuller description of Connecticut's estate, succession, and gift taxes before and after January 1, 2005.)

### **2009 STATE ESTATE TAXES**

Seventeen states have state estate taxes in 2009. The majority are former pick-up taxes that have been decoupled from the federal law. Eleven states continue to use the pre-EGTRRA federal credit rates, definitions, and deductions. The other six, including Connecticut, have stand-alone estate taxes, though Connecticut's is still closely tied to the federal estate tax law and the pre-EGTRRA credit rates.

## ***Estate Tax Thresholds***

As with the federal estate tax, states impose their estate taxes only on estates that meet or exceed specific taxable thresholds, exempting smaller estates. In the 17 states that have state estate taxes, tax thresholds range from a low of \$338,333 in Ohio to a high of \$3.5 million (the same as the 2009 federal tax threshold) in North Carolina. The most common state estate tax threshold is \$1 million. Connecticut's threshold is \$2 million.

Table 3 shows state estate tax thresholds in effect for 2009 in the 17 states that have estate taxes.

**TABLE 3: 2009 STATE ESTATE TAX THRESHOLDS**

<b><i>State</i></b>	<b><i>Taxable Estate Threshold</i></b>
Connecticut	\$2,000,000
Illinois	2,000,000
Kansas	1,000,000
Maine	1,000,000
Maryland	1,000,000
Massachusetts	1,000,000
Minnesota	1,000,000
New Jersey	675,000
New York	1,000,000
North Carolina	3,500,000
Ohio	338,333
Oklahoma	3,000,000
Oregon	1,000,000
Rhode Island	675,000
Tennessee	1,000,000
Vermont	1,000,000
Washington	2,000,000

## ***Tax Rates Linked to the Pre-EGTRRA Federal Credit***

In 2009, 11 states have state estate tax rates identical to the federal state estate tax credit rates in effect on December 31, 2001 (Internal Revenue Code § 2011 (b) (1)). These states are Illinois, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New York, North Carolina, Oregon, Rhode Island, and Vermont. Table 4 shows the estate tax rates and brackets applicable in these 11 states.

**TABLE 4: ESTATE TAX RATES AND BRACKETS IN 11 STATES**

<b>TAXABLE ESTATE</b>		<b>TAX RATE</b>	
<b>Col. A: Over</b>	<b>Col. B: But not over</b>	<b>Col. C: Tax on Col. A</b>	<b>Col. D: Tax Rate on excess over Col. A</b>
0	\$40,000		0
\$40,000	90,000	0	0.8%
90,000	140,000	\$400	1.6%
140,000	240,000	1,200	2.4%
240,000	440,000	3,600	3.2%
440,000	640,000	10,000	4.0%
640,000	840,000	18,000	4.8%
840,000	1,040,000	27,600	5.6%
1,040,000	1,540,000	38,800	6.4%
1,540,000	2,040,000	70,800	7.2%
2,040,000	2,540,000	106,800	8.0%
2,540,000	3,040,000	146,800	8.8%
3,040,000	3,540,000	190,800	9.6%
3,540,000	4,040,000	238,800	10.4%
4,040,000	5,040,000	290,800	11.2%
5,040,000	6,040,000	402,800	12.0%
6,040,000	7,040,000	522,800	12.8%
7,040,000	8,040,000	650,800	13.6%
8,040,000	9,040,000	786,800	14.4%
9,040,000	10,040,000	930,800	15.2%
Over \$10,040,000		\$1,082,800 plus 16.0% of the excess over \$10,100,000	

***Tax Rates Not Linked to the Federal Credit***

Six states have estate taxes whose rates differ from the pre-EGTRRA federal credit rates and brackets. The number of estate tax brackets in these states ranges from two to 13 with maximum rates on the largest estates ranging from 3% in Kansas to 19% in Washington.

**Connecticut.** Connecticut’s tax rates are similar, but not identical, to the pre-2001 federal estate tax credit rates. The main difference is that Connecticut’s lowest rate of 5.085% applies to the entire first \$2 million of any taxable estate rather than only to the excess over that threshold. Connecticut’s estate tax brackets also vary slightly from the federal credit brackets (see Table 5).

**TABLE 5: CONNECTICUT ESTATE TAX**

<b>TAXABLE ESTATE</b>		<b>TAX RATE</b>	
<b>Col. A: Over</b>	<b>Col. B: But not over</b>	<b>Col. C: Tax on Col. A</b>	<b>Col. D: Tax Rate on excess over Col. A</b>
0	\$2,000,000	No Tax	
\$2,000,000	2,100,000	5.085% of the excess over 0	
2,100,000	2,600,000	\$106,800	8.0%
2,600,000	3,100,000	146,800	8.8%
3,100,000	3,600,000	190,800	9.6%
3,600,000	4,100,000	238,800	10.4%
4,100,000	5,100,000	290,800	11.2%
5,100,000	6,100,000	402,800	12.0%
6,100,000	7,100,000	522,800	12.8%
7,100,000	8,100,000	650,800	13.6%
8,100,000	9,100,000	786,800	14.4%
9,100,000	10,100,000	930,800	15.2%
Over \$10,100,000		\$1,082,800 plus 16% of the excess over \$10,100,000	

**Kansas.** Kansas enacted a new estate tax effective for deaths on or after January 1, 2007 but immediately began to phase the tax out. Under current law, the tax will be eliminated on January 1, 2010. Table 6 shows the state's tax rates for 2009.

**TABLE 6: KANSAS ESTATE TAX FOR 2009**

<b>TAXABLE ESTATE</b>		<b>TAX RATE</b>	
<b>Col. A: Over</b>	<b>Col. B: But not over</b>	<b>Col. C: Tax on Col. A</b>	<b>Col. D: Tax Rate on excess over Col. A</b>
0	\$1,000,000	No Tax	
1,000,000	2,000,000	0	0.5%
2,000,000	5,000,000	\$5,000	1.0%
5,000,000	10,000,000	35,000	2.0%
Over \$10,000,000		\$135,000 plus 3.0% of the excess over \$10,000,000	



**Ohio.** Ohio's estate tax rates are shown in Table 7. The rates include a state estate tax credit of up to \$13,900 that effectively exempts estates under \$338,333 from the tax. The rates apply to deaths occurring on or after January 1, 2002.

**TABLE 7: OHIO ESTATE TAX**

<b>TAXABLE ESTATE</b>		<b>TAX RATE</b>	
<b>Col. A: Over</b>	<b>Col. B: But not over</b>	<b>Col. C: Tax on Col. A</b>	<b>Col. D: Tax Rate on excess over Col. A</b>
0	\$338,333	No Tax	
\$338,333	500,000	13,900	6.0%
Over \$500,000		\$23,600 plus 7.0% of the excess over \$500,000	

**Oklahoma.** Like Kansas, Oklahoma’s estate tax is scheduled to be eliminated for deaths on or after January 1, 2010. The rates below therefore apply only to deaths occurring in 2009 (Table 8).

**TABLE 8: OKLAHOMA ESTATE TAX, 2009**

<b>TAXABLE ESTATE</b>		<b>TAX RATE</b>	
<b>Col. A: Over</b>	<b>Col. B: But not over</b>	<b>Col. C: Tax on Col. A</b>	<b>Col. D: Tax Rate on excess over Col. A</b>
0	\$3,000,000	No Tax	
3,000,000	3,010,000	0	0.5%
3,010,000	3,020,000	\$50	1.0%
3,020,000	3,040,000	150	1.5%
3,040,000	3,060,000	450	2.0%
3,060,000	3,100,000	850	2.5%
3,100,000	3,250,000	1,850	3.0%
3,250,000	3,500,000	6,350	6.5%
3,500,000	3,750,000	22,600	7.0%
3,750,000	4,000,000	40,100	7.5%
4,000,000	6,000,000	58,850	8.0%
6,000,000	8,000,000	218,850	8.5%
8,000,000	13,000,000	388,950	9.0%

<b>TAXABLE ESTATE</b>		<b>TAX RATE</b>	
<b>Col. A: Over</b>	<b>Col. B: But not over</b>	<b>Col. C: Tax on Col. A</b>	<b>Col. D: Tax Rate on excess over Col. A</b>
Over \$13,000,000			\$838,500 plus 10.0% of the excess over \$13,000,000

**Tennessee.** Tennessee's tax rates are shown in Table 9.

**TABLE 9: TENNESSEE ESTATE TAX**

<b>TAXABLE ESTATE</b>		<b>TAX RATE</b>	
<b>Col. A: Over</b>	<b>Col. B: But not over</b>	<b>Col. C: Tax on Col. A</b>	<b>Col. D: Tax Rate on excess over Col. A</b>
0	\$1,000,000		No Tax
\$1,000,000	1,040,000	0	5.5%
1,040,000	1,240,000	2,200	6.5%
1,240,000	1,440,000	15,200	7.5%
Over \$1,440,000		\$30,200 plus 9.5% of the excess over \$1,440,000	

**Washington.** Washington's estate tax rates are shown in Table 10.

**TABLE 10: WASHINGTON ESTATE TAX**

<b>TAXABLE ESTATE</b>		<b>TAX RATE</b>	
<b>Col. A: Over</b>	<b>Col. B: But not over</b>	<b>Col. C: Tax on Col. A</b>	<b>Col. D: Tax Rate on excess over Col. A</b>
0	\$2,000,000		No Tax
2,000,000	3,000,000	0	10%
3,000,000	4,000,000	\$100,000	14%
4,000,000	5,000,000	240,000	15%
5,000,000	6,000,000	390,000	16%
6,000,000	8,000,000	550,000	17%
8,000,000	9,000,000	890,000	18%
9,000,000	11,000,000	1,070,000	18.5%
Over \$11,000,000		\$1,440,000 plus 19% of the excess over \$11,000,000	

## **2009 STATE INHERITANCE TAXES**

Seven states have inheritance taxes based on the relationship of a deceased person to his heirs. They divide heirs into from three to five classes and impose different tax rates on each class.



**Indiana**

Indiana’s tax has three classes of taxable heirs. Estates passing to surviving spouses are not taxed. Class A covers relatives in a direct line, such as children, parents and grandchildren; Class B covers collateral relatives, such as siblings, nieces and nephews, and in-laws; and Class C includes more remote relatives and nonrelatives. The amount of the inheritance exempted from the tax is: \$100,000 for each Class A heir, \$500 for each Class B heir, and \$100 for each Class C heir.

**TABLE 11: INDIANA INHERITANCE TAX**

<b>TAXABLE ESTATE (exceeding applicable exclusion)</b>		<b>TAX RATES</b>					
		<b>CLASS A</b>		<b>CLASS B</b>		<b>CLASS C</b>	
<b>Col. A: Over</b>	<b>Col. B: But not over</b>	<b>Col. C: Tax on Col. A</b>	<b>Col. D: Tax Rate on excess over Col. A</b>	<b>Col. E: Tax on Col. A</b>	<b>Col. F: Tax Rate on excess over Col. A</b>	<b>Col. G: Tax on Col. A</b>	<b>Col. H: Tax Rate on excess over Col. A</b>
\$0	\$25,000	\$0	1%	\$0	7%	\$0	10%
25,000	50,000	250	2%	1,750	7%	2,500	10%
50,000	100,000	750	3%	3,500	7%	5,000	10%
100,000	200,000	2,250	3%	7,000	10%	10,000	15%
200,000	300,000	5,250	4%	17,000	10%	25,000	15%
300,000	500,000	9,250	5%	27,000	10%	40,000	15%
500,000	700,000	19,250	6%	47,000	12%	70,000	15%
700,000	1,000,000	31,250	7%	71,000	12%	100,000	15%
1,000,000	1,500,000	52,250	8%	107,000	15%	145,000	20%
Over \$1,500,000		92,250	9%	182,000	15%	245,000	20%

**Iowa**

Iowa has five classes of heirs. Class 1, which is exempt from the tax, includes surviving spouses and relatives in a direct line, such as children, parents and grandchildren; Class 2 covers siblings and sons-and daughters-in-law; Class 3 includes more remote relatives and nonrelatives. The tax rates on Class 2 and 3 heirs are shown in Table 12.

The remaining classes are taxed at flat rates. Class 4 covers transfers (1) to institutions organized in other states; (2) for charitable, educational, or religious purposes; or (3) to Iowa resident trustees for use outside the state. The tax rate for Class 4 heirs is 10% of the amount transferred excluding any amounts that qualify for a charitable exemption. Class 5 covers transfers to for-profit firms, corporations, and societies. The tax rate for Class 5 heirs is 15%.

**TABLE 12: IOWA INHERITANCE TAX, CLASSES 2 & 3**

<b>TAXABLE ESTATE</b>		<b>TAX RATE</b>			
		<b>CLASS 2</b>		<b>CLASS 3</b>	
<b>Col. A: Over</b>	<b>Col. B: But not over</b>	<b>Col. C: Tax on Col. A</b>	<b>Col. D: Tax Rate on excess over Col. A</b>	<b>Col. E: Tax on Col. A</b>	<b>Col. F: Tax Rate on excess over Col. A</b>
\$0	\$5,000	\$0	5%	\$0	10%
5,000	12,500	250	5%	500	10%
12,500	25,000	625	6%	1,250	10%
25,000	50,000	1,375	7%	2,500	10%
50,000	75,000	3,125	7%	5,000	12%
75,000	100,000	4,875	8%	8,000	12%
100,000	150,000	6,875	9%	11,000	15%
Over \$150,000		11,375	10%	18,500	15%

**Kentucky**

Kentucky has three classes of heirs.

- Class A covers (1) a surviving spouse; (2) an infant child by blood or adoption; (3) a blood child of any age; (4) an adopted child of any age, if the child was adopted in infancy or adopted as an adult after being raised in infancy by the deceased; (5) a step-child; (6) a grandchild of any of the foregoing; (7) a parent; and (8) full or half-brothers and sisters. Class A heirs are not taxed.
- Class B covers whole or half nieces and nephews, sons- and daughters-in-law, and aunts and uncles. The tax rates for Class B are shown in Table 13. The first \$1,000 of an estate transferred to a Class B heir is exempt from the tax.
- Class C covers anyone not included in the other two classes, namely more remote relatives and nonrelatives. Tax rates on estates passing to Class C heirs are shown in Table 13. The first \$500 of any amount transferred is exempt.

**TABLE 13: KENTUCKY INHERITANCE TAX, CLASSES B & C**

TAXABLE ESTATE		TAX RATE			
		CLASS B		CLASS C	
Col. A: Over	Col. B: But not over	Col. C: Tax on Col. A	Col. D: Tax Rate on excess over Col. A	Col. E: Tax on Col. A	Col. F: Tax Rate on excess over Col. A
\$0	\$500	\$0	4%	\$0	6%
500	1,000	0	4%	0	6%
1,000	5,000	0	4%	30	6%
5,000	10,000	160	4%	270	6%
10,000	20,000	360	5%	570	8%
20,000	30,000	860	6%	1,370	10%
30,000	40,000	1,460	8%	2,370	12%
40,000	50,000	2,660	10%	4,170	14%
50,000	60,000	3,160	10%	4,870	14%
60,000	100,000	4,160	12%	6,270	16%
100,000	200,000	8,960	14%	12,670	16%
200,000	500,000	22,960	16%	28,670	16%
\$500,000 and over		70,960	16%	76,670	16%

**Maryland**

Maryland’s inheritance tax imposes a flat 10% on the value of estates passing to covered beneficiaries. Estates passing to any of the following are exempt: (1) children and other lineal descendants, (2) surviving spouses, (3) parents and grandparents, and (4) siblings.

Maryland also has a decoupled estate tax on estates over \$1 million (see Tables 3 and 4 above).

**Nebraska**

Nebraska’s inheritance tax is imposed by state law, but is administered by counties. It has three classes of heirs.

- Class 1 covers (1) a surviving spouse, (2) parents and grandparents, (3) siblings, (4) natural or adopted children and grandchildren, (5) any person to whom the deceased stood in the acknowledged relationship of a parent for at least 10 years prior to death, and (6) the spouse or surviving spouse of any of the foregoing people. An estate passing to a surviving spouse is not



taxed. Other Class 1 heirs are taxed at the rates shown in Table 14. The first \$40,000 per beneficiary is exempt.

- Class 2 covers nieces and nephews, aunts and uncles, and their lineal descendants. The tax rates are shown in Table 14. The first \$15,000 of an estate transferred to a Class 2 heir is exempt.
- Class 3 covers anyone not included in the other two classes, namely more remote relatives and nonrelatives. Tax rates on estates passing to Class 3 heirs are shown in Table 14. The first \$10,000 of any amount transferred of a Class 3 heir is exempt.

**TABLE 14: NEBRASKA INHERITANCE TAX**

<b>TAXABLE ESTATE (exceeding applicable exemption)</b>		<b>TAX RATES</b>					
		<b>CLASS 1 (excluding surviving spouse)</b>		<b>CLASS 2</b>		<b>CLASS 3</b>	
<b>Col. A: Over</b>	<b>Col. B: But not over</b>	<b>Col. C: Tax on Col. A</b>	<b>Col. D: Tax Rate on excess over Col. A</b>	<b>Col. E: Tax on Col. A</b>	<b>Col. F: Tax Rate on excess over Col. A</b>	<b>Col. G: Tax on Col. A</b>	<b>Col. H: Tax Rate on excess over Col. A</b>
\$10,000	\$15,000	\$0	0%	\$0	0%	\$0	18%
15,000	40,000	0	0%	0	13%	900	18%
\$40,000 and over		0	1%	3,2500	13%	5,400	18%

### ***New Jersey***

New Jersey's inheritance tax has four classes as follows. The first \$500 of an estate passing to Class C or D heirs is exempt. (New Jersey has no Class B.)

- Surviving spouse and, for deaths on or after July 10, 2004, domestic partner: No tax.
- Class A (parents, grandparents, children and issue): No tax.
- Class C (other relatives): See Table 15.
- Class D (people and institutions not otherwise classified): See Table 15.

New Jersey also has a decoupled estate tax on estates over \$675,000 (see Tables 3 and 4 above).

**TABLE 15: NEW JERSEY INHERITANCE TAX**

<b>TAXABLE ESTATE</b>		<b>TAX RATE</b>			
		<b>CLASS C</b>		<b>CLASS D</b>	
<b>Col. A: Over</b>	<b>Col. B: But not over</b>	<b>Col. C: Tax on Col. A</b>	<b>Col. D: Tax Rate on excess over Col. A</b>	<b>Col. E: Tax on Col. A</b>	<b>Col. F: Tax Rate on excess over Col. A</b>
\$0	\$500	\$0	0	\$0	0
500	25,000	0	0	0	15%
25,000	700,000	0	11%	101,250	15%
700,000	1,100,000	74,250	11%	165,250	16%
1,100,000	1,400,000	118,350	13%	213,250	16%
1,400,000	1,700,000	157,350	14%	261,250	16%
Over \$1,700,000		199,350	16%	309,250	16%

**Pennsylvania**

Pennsylvania’s inheritance tax classes and tax rates are:

- Transfer to surviving spouse: No tax
- Transfer from a child under 21 to surviving parent, step-parent, or adoptive parent: No tax
- Class A -
  - Transfer to grandparents, parents, children and their spouses, lineal descendants, and widows and widowers: 4.5%
  - Transfer to sibling: 12%
  - Family exemption for Class A is \$3,500
- Class B – Transfer to all others: 15% with no exemptions

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5. Cooper, Jeffrey A., Ivimey, John R., and Vincenti, Donna D., “State Estate Taxes after EGTRRA: A Long Day’s Journey into Night,” 317 *Quinn. Prob. Law Jour.* 317 (2004).

6. Legislative Program Review and Investigations Committee, *Connecticut's Tax System*. Connecticut General Assembly, January 2006.
7. McNichol, Elizabeth C., *State Taxes on Inherited Wealth Remain Common: 24 States Levy and Estate or Inheritance Tax*, Center on Budget and Policy Priorities, September 9, 2006.
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JL:ts