



WRNewswire

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TOPIC: Special Report: New Jersey Repeals Estate Tax

CITATION: *State Estate Taxes: A Key Tool for Broad Prosperity*, Elizabeth McNichol, Center on Budget and Policy Priorities, May 11, 2016.

SUMMARY: On October 14th, New Jersey Governor Chris Christie signed a transportation bill that included a repeal of the state's estate tax. The full effective date for repeal is January 1, 2018.

- New Jersey's estate tax exemption is currently \$675,000, and that will remain the exemption level for the rest of 2016
- The exemption for residents who die in 2017 will be \$2 million
- Beginning January 1, 2018, there will be no estate tax in New Jersey for any resident

However, this legislation did not repeal New Jersey's inheritance tax, which is based on the size of the resident's estate. The inheritance tax does not apply to bequests to charities and close family members, but does apply to friends and relatives such as nieces and nephews. The tax rate starts at 11% for transfers of real property valued at \$500 or more, quickly rising to a top rate of 16%.

Given the transition time between enactment of this legislation and the full effective date, as well as the continued presence of the New Jersey inheritance tax, advisors should review client plans for any changes to ensure their goals are being met.

State Estate Taxes and Trends

Before the Economic Growth and Tax Relief Reconciliation Act of 2001 repealed the federal estate tax, states had an estate tax that allowed them to get a portion of federal estate tax revenue – sometimes referred to as a “pick-up” tax. The estate tax liability did not increase for residents; rather it was effectively a revenue sharing arrangement between the federal government and state governments. In addition, around 12 states levied either an estate tax or inheritance tax that had no connection to the federal estate tax. Typically, at least some of the state estate tax liability would be credited against federal estate taxes.

However, the 2001 bill repealed the “pick-up tax” for states—there was a four year phase-out that went into full effect in 2005. In the wake of this change, a number of states “decoupled” from the federal tax code to maintain the revenue from pick-up taxes, and the legislation didn’t impact inheritance or estate taxes with no connection to the federal code.

18 states, plus Washington, DC, currently have either an estate or inheritance tax. The following is a breakdown of the tax regimes:

- 14 states and DC had pick-up taxes before 2001 and retained the estate tax: Delaware, Illinois, Maryland, Massachusetts, Minnesota, New Jersey, New York, Rhode Island, Vermont, Oregon, Washington, Maine, Connecticut, and Hawaii
- 4 states levy an inheritance tax: Iowa, Kentucky, Nebraska, and Pennsylvania
- Maryland imposes both an estate tax like the pre-2001 pick-up tax and an inheritance tax – New Jersey did as well before its actions last week

There has been a lot of debate around the issue of state estate taxes since the repeal of the federal estate tax in 2001. AALU members are of course aware of the many benefits that a permanent and sustainable estate tax regime provides, yet state estate taxes are often caught up in the same political spin cycle that drives federal estate tax discussions. Democrats and progressives are often pushing to lower the exemption and increase the rate of estate taxes, while Republicans and conservatives typically favor full repeal. In fact, when one side makes a proposal in support of their position, you often see the other side quickly respond by putting out their own proposals. As indicated by the recent New Jersey action, the trend in states is towards full repeal.

Federal Estate Tax – Presidential Plans

Hillary Clinton recently revised her estate tax proposal to mirror Senator Bernie Sanders (I-VT) proposal, which would lower the exemption and increase rates significantly, while Donald Trump would repeal the estate tax.

Refer to [WR Newswire 16.08.31](#) for overviews of the Clinton and Trump estate tax plans in more detail, including their estate tax proposals.

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