

The worst U.S. states to die in

You don't have to be rich to be exposed to death taxes in some states



With the current relatively generous federal estate tax exemption of \$5.25 million for 2013 and \$5.34 million for 2014, you surely don't have any estate tax worries. Right? Not necessarily! It turns out that 19 states and the District of Columbia impose their own estate and/or inheritance taxes, and most of them have exemptions well below the federal amount. If you live in one of these places, your estate might be exempt from the federal estate tax but still exposed to a significant state death tax hit. Yikes! Here's what you need to know.

14 states and D.C. have their own estate taxes

For 2013, 14 states plus the District of Columbia had their own estate taxes (as opposed to inheritance taxes, which will be explained later). Like the federal estate tax, these state estate taxes are based on the entire value of your estate in excess of the applicable exemption. Exemptions vary from a low of \$675,000 to a high of \$5.25 million.

Two states have exemptions of less than \$1 million (New Jersey at \$675,000; and Rhode Island at \$910,625).

Five states have \$1 million exemptions (Maryland, Massachusetts, Minnesota, New York, and Oregon), and so does D.C..

Three states have \$2 million exemptions (Connecticut, Maine, and Washington)

Delaware and Hawaii have \$5.25 million exemptions (same as the federal exemption), so there is less risk of unanticipated estate tax exposure if you live in those states. That said, Delaware and Hawaii estates worth over \$5.25 million (for 2013) could be hit with both the federal estate tax and the state version.

The lowest maximum state estate tax rate is 12% (Connecticut and Maine). The highest is 19% (Washington). The other states and D.C. all charge a 16% maximum rate.

Jurisdiction	2013 Exemption*	2013 Maximum Tax Rate*
Connecticut	\$2,000,000	12%
Delaware	5,250,000	16%
District of Columbia	1,000,000	16%
Hawaii	5,250,000	16%
Illinois	4,000,000	16%
Maine	2,000,000	12%
Maryland	1,000,000	16%
Massachusetts	1,000,000	16%
Minnesota	1,000,000	16%
New Jersey	675,000	16%
New York	1,000,000	16%
Oregon	1,000,000	16%
Rhode Island	910,625	16%
Vermont	2,750,000	16%
Washington	2,000,000	19%

** We don't yet know for sure about 2014, because state laws could be changed for this year.*

Sources: Forbes.com and ING.

7 states have inheritance taxes

For 2013, seven states impose inheritance taxes, which are assessed on the value of specific inherited assets in excess of the applicable exemption. (In contrast, estate taxes are assessed on the entire value of an estate in excess of the applicable exemption.) The inheritance tax exemptions are zero or negligible—except in Tennessee. Exemption amounts and maximum tax rates are shown below.

Jurisdiction	2013 Exemption*	2013 Maximum Tax Rate*
Iowa	\$15	15%
Kentucky	500	16%
Maryland	150	10%
Nebraska	10,000	18%
New Jersey	zero	16%
Pennsylvania	zero	15%
Tennessee**	1,250,000	9.50%

* We don't yet know for sure about 2014, because state laws could be changed for this year.

** Gradually phasing out the tax: 2014 exemption is \$2 million; 2015 exemption will be \$5 million; tax will be fully phased out after 2015.

Sources: *Forbes.com* and *ING*.

Maryland and New Jersey have both

Maryland and New Jersey charge both an estate tax and an inheritance tax. In Maryland, the inheritance tax exemption is \$150 and the maximum tax rate is 10% (in addition to the 16% maximum estate tax rate). In New Jersey, the inheritance tax exemption is zero and the maximum tax rate is 16% (in addition to the 16% maximum estate tax rate).

The rest of the states have no death taxes

The 31 states that aren't listed in the preceding tables have no estate or inheritance taxes.

How death taxes add up

Thankfully, the federal and state tax rates aren't just stacked on top of each other—because state inheritance and estate taxes are subtracted from the value of the taxable estate in calculating the federal estate tax. Despite the subtractions, you can wind up with some pretty horrific effective combined tax rates when you account for federal and state estate taxes and state inheritance taxes. For 2013 and beyond, the federal estate tax rate is a flat 40% on the estate tax value in excess of the applicable exemption: \$5.25 million for 2013 and \$5.34 million for 2014.

For instance, the maximum combined rate for 2013 in Connecticut and Maine (states with 12% estate tax rates) would be 47.2% while the maximum rate in a state with a 16% rate would be 49.6%. When tax rates approach 50%, you are well within your rights to whine.

The bottom line

When it comes to death taxes, some states are better places to die than others. That may not be a reason to move, but it's something to think about if you're dedicated to leaving more to your heirs and less to tax collectors. If you don't want to move, I suggest huddling with an experienced estate planning pro to see if there are some ways to reduce your exposure to death taxes.