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ESTATE AND INHERITANCE TAX RATES IN CONNECTICUT AND SURROUNDING STATES

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You asked for the estate and inheritance tax rates in Connecticut, Massachusetts, New Jersey, New York, and Rhode Island. The information in this report comes from CCH's *State Tax Guide* and each state's tax department website.

SUMMARY

Estate and inheritance taxes are imposed on the taxable value of property a person bequeaths to his or her heirs. The federal government imposes an estate tax as do several states. In addition, some states also impose an inheritance tax.

Although estate and inheritance taxes appear similar, they actually apply to different transactions. An 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 executor of a deceased person's estate is liable for paying the 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 and, in most cases, also on the relationship between the heir and the deceased.

All of the states covered by this report have state estate taxes. New Jersey also has an inheritance tax. Four of the five states have identical estate tax rates, but their thresholds for taxable estates are different. The fifth state, Connecticut, has fewer estate tax brackets, a lower top tax rate, and a higher taxable estate threshold than the other four.

ESTATE TAXES

Before 2001, Connecticut, Massachusetts, New Jersey, New York, and Rhode Island had state estate taxes that were set to equal the maximum credit against the federal estate tax for state estate taxes paid. These state taxes were known as “pick-up” taxes because states that imposed them could collect an amount equal to the federal credit without increasing the taxpayer’s total liability. But, in 2001, Congress eliminated the federal credit in the *Economic Growth and Tax Relief Recovery Act of 2001* (EGTRRA - P.L. 107-134).

The EGTRRA took effect for deaths occurring on or after January 1, 2002. One of its major changes was to eliminate the state tax credit against the federal estate tax and substitute a deduction. The federal law phased out the credit over four years. It was fully eliminated as of January 1, 2005. By eliminating the federal credit, Congress effectively eliminated the state pick-up estate taxes linked to the credit. As a result, several states, including all five of the states covered here, separated or “decoupled” their state taxes from the federal law.

Massachusetts, New Jersey, New York, and Rhode Island

Massachusetts, New Jersey, New York, and Rhode Island have state estate tax rates equal to the rates for calculating the pre-EGTRRA federal credit. Consequently, the estate tax rates and brackets in those states are the same (see Table 1). However, they have different thresholds for taxable estates. The tax applies to estates valued at more than:

1. \$1 million in Massachusetts and New York,
2. \$859,350 in Rhode Island, and
3. \$675,000 in New Jersey.

Rhode Island’s threshold applies for deaths occurring between January 1, 2011 and December 31, 2011. Rhode Island adjusts its estate tax threshold annually for inflation.

In the table below, the state taxable estate thresholds listed above should be substituted for the zero in the initial bracket, with the amounts listed in the remainder of Columns A and B added to the threshold to determine the tax brackets for each state.

TABLE 1: ESTATE TAX RATES AND BRACKETS
Massachusetts, New Jersey, New York, Rhode Island

TAXABLE ESTATE (Amount over State Threshold)		TAX (Add Columns C & D)	
<u>Col. A:</u> Over	<u>Col. B:</u> But not over	<u>Col. C:</u> Tax on Col. A	<u>Col. D:</u> Tax Rate on excess over Col. A
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	

Connecticut

Connecticut's estate tax is the only one of the five with rates not linked to the pre-EGTRRA federal credit rates. Connecticut's rates and brackets are shown in Table 2. Connecticut's taxable estate threshold is \$2 million effective with deaths occurring on or after January 1, 2011.

TABLE 2: CONNECTICUT ESTATE TAX RATES AND BRACKETS

TAXABLE ESTATE		TAX (Add Columns C & D)	
<i>Col. A: Over</i>	<i>Col. B: But not over</i>	<i>Col. C: Tax on Col. A</i>	<i>Col. D: Tax Rate on excess over Col. A</i>
0	\$2,000,000	NO TAX	
2,000,000	3,600,000	0	7.2%
3,600,000	4,100,000	\$115,200	7.8%
4,100,000	5,100,000	154,200	8.4%
5,100,000	6,100,000	238,200	9.0%
6,100,000	7,100,000	328,200	9.6%
7,100,000	8,100,000	424,200	10.2%
8,100,000	9,100,000	526,200	10.8%
9,100,000	10,100,000	634,200	11.4%
Over \$10,000,000		748,200	12.0%

NEW JERSEY INHERITANCE TAX

New Jersey is the only state of the five that has an inheritance tax as well as an estate tax. New Jersey’s inheritance tax rates and thresholds are based on the class of heir to whom the property is transferred. The classes are based on the heir’s relationship to the deceased. The closest relations pay no tax. The classes are:

- Surviving spouse: No tax
- Class A (parents, grandparents, children, and issue): No tax
- Class C (other relatives): See Table 3A
- Class D (people and institutions not otherwise classified): See Table 3B

Inheritance tax rates are applied to the taxable value of the amount each heir receives rather than to the value of estate as a whole. Heirs, rather than the estate itself, are liable for the tax payment.

**TABLE 3A: NEW JERSEY INHERITANCE TAX
Rates for Class C Heirs**

Taxable Inheritance		Tax Rate
<i>Over</i>	<i>But Not Over</i>	
0	\$25,000	None
\$25,000	1,100,000	11%
1,100,000	1,400,000	13%
0	1,400,000	14%
1,400,000	1,700,000	14%
0	Over \$1,700,000	16%

**TABLE 9B: NEW JERSEY INHERITANCE TAX
Rates for Class D Heirs**

Taxable Inheritance		Tax Rate
<i>Over</i>	<i>But Not Over</i>	
0	\$500	None
\$500	700,000	15%
	Over \$700,000	16%

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