

Money Matters

November 1, 2016

Skloff Financial Group Question of the Month:

New Jersey and New York State Estate Tax Changes

By Aaron Skloff, AIF, CFA, MBA

Q: Can you explain the changes to the New Jersey and New York state estate tax?

The Problem – Taxes When You Live and Taxes When You Die

It is common knowledge that with few exceptions, you pay taxes on: your income, your dividends, your investment gains and if you are lucky enough to win the lottery, your winnings. What may not be common knowledge is the federal estate tax of 40% and state estate taxes assessed on your estate when you die. Some states, like New Jersey (NJ) and New York (NY) also have their own state estate tax of up to 16%.

The Solution – Federal, New Jersey New York State Estate Tax Exemptions

The federal government provides each person an exemption from its estate tax of \$5.45 million for 2016 and \$5.49 million in 2017. Amounts exceeding the exemption amount are subject to the 40% federal estate tax. The federal government allows portability, where a surviving spouse can use their deceased spouse's unused exemption in addition to their own exemption. On October 14, 2016, NJ changed its estate tax laws to increase its \$675,000 exemption in 2016 to \$2 million in 2017 and **eliminate its state estate tax entirely on January 1, 2018**. In 2015, NY enacted several estate tax changes: increasing its \$2.06 million exemption for those dying after March 31, 2015 and increasing its exemption in subsequent periods to what is likely to **meet the federal estate tax exemption on January 1, 2019**. The scheduled changes for the NJ and NY estate tax are outlined in the charts below.

New Jersey State Estate Tax	
Dates of Death	Exemption Amount
Before January 1, 2017	\$675,000
January 1, 2017 to December 31, 2017	\$2,000,000
After December 31, 2017	No NJ Estate Tax

New York State Estate Tax	
Dates of Death	Exemption Amount
April 1, 2015 to March 31, 2016	\$3,125,000
April 1, 2016 to March 31, 2017	\$4,187,500
April 1, 2017 to December 31, 2018	\$5,250,000
After January 1, 2019	Expected to Match Federal Exemption

New Jersey Inheritance Tax. Changes to the NJ estate tax do not affect the NJ inheritance tax. The NJ inheritance tax is based on five beneficiary classes with different exemption amounts and taxes of up to 16%. Class "A" is subject to the estate tax, not the inheritance tax rules and includes: father, mother, grandparent, domestic partner and child of the decedent. Class "B" was eliminated by statute effective July 1, 1963. Class "C" includes brother and sister of the decedent. Class "D" includes every other transferee or beneficiary who is not included in Classes "A", "C" or "E". Class "E" includes the State of NJ or any of its political subdivisions for public or charitable purposes, an educational institution, church, hospital, orphan asylum and public libraries. These beneficiaries are exempt from the inheritance tax. The NJ inheritance tax exemptions and rates are outlined in the charts below.

New Jersey State Inheritance Tax Class "C"	
Inheritance Amount	Inheritance Tax Rate
First \$25,000	No Inheritance Tax
Next \$1,075,000	11%
Next \$300,000	13%
Next \$300,000	14%
Over \$1,700,000	16%

New Jersey State Inheritance Tax Class "D"	
Inheritance Amount	Inheritance Tax Rate
If less than \$500	No Inheritance Tax
If \$500 or more	No Exemption
First \$700,000	15%
Over \$700,000	16%

Estate Planning Goes Beyond the Estate Tax and Inheritance Tax. Estate planning includes building and protecting your estate. It includes optimizing income taxes and capital gains taxes and alternative minimum taxes throughout your lifetime. It also includes estate planning documentation, such as: wills, living wills, power of attorneys and trusts.

Action Steps

Work closely with your Registered Investment Adviser (RIA) and your estate attorney to develop an estate plan that protects and provides for you and your loved ones. Review your estate plan as estate tax laws change.

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