

Four Things to Know About the Estate Tax

The modern federal estate tax recently celebrated its 100th birthday.¹ While the estate tax remains a politically charged issue, it is likely that many investors do not understand key facts about how it works. With that in mind, here are four things investors should know.

1. Most Estates Pay No Federal Estate Tax

When originally created in 1916, the estate tax allowed U.S. residents to transfer \$50,000 to beneficiaries tax-free. In 2017, that amount rises to just under \$5.5 million (or just under \$11 million for the estates of married couples), continuing a significant rise over the last 15 years.

This means only the very largest estates are ultimately taxed. In fact, only one in 500 estates end up paying any tax at all.²

2. Estates that Are Taxed Pay Less than You Might Think

The top federal estate tax rate is 40%. However, due to the lifetime exemption and other exceptions, the average effective tax rate is far lower. Among estates that paid taxes in 2013, for example, the effective tax rate was 16.6%.³

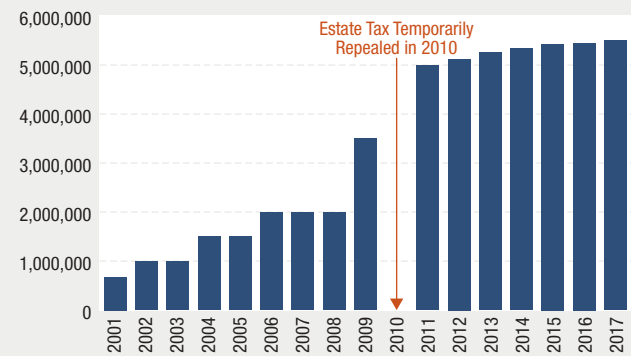
3. Separate State Rules Can Have an Impact⁴

Fourteen states, plus the District of Columbia, impose their own estate taxes, which are generally based on the value of the decedent's estate. Another six impose inheritance taxes, which are generally based on the value of an individual beneficiary's inheritance.

These taxes are in addition to the federal estate tax, with each having different rates, exemptions, and, ultimately, impacts on affected estates.

The U.S. Federal Estate Tax Exemption Has Grown with Time

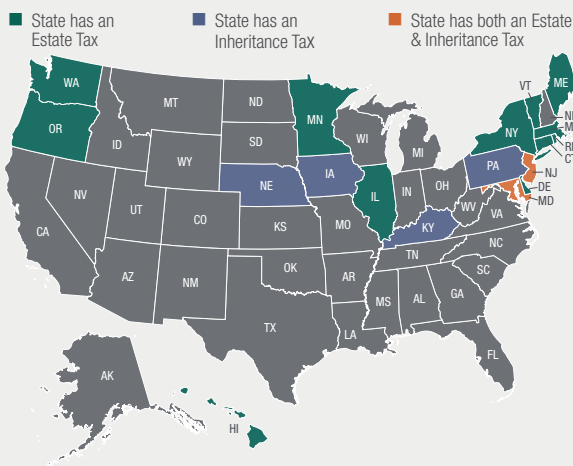
Estate Tax Exemptions (\$), 2001-2017



Source: IRS (as of December 31, 2016)

Does Your State Have an Estate or Inheritance Tax?

State Estate & Inheritance Tax Rates & Exemptions (as of January 1, 2017)



State	Exemption Amount	Min Rate	Max Rate
CT	\$2,000,000	7.2%	12.0%
DC	\$1,000,000	0.8%	16.0%
DE	\$5,450,000	0.8%	16.0%
HI	\$5,450,000	0.8%	16.0%
IL	\$4,000,000	0.8%	16.0%
MA	\$1,000,000	0.8%	16.0%
ME	\$5,450,000	8.0%	12.0%
MN	\$1,800,000	9.0%	16.0%
NY	\$4,187,500 ⁵	3.1%	16.0%
OR	\$1,000,000	10.0%	16.0%
RI	\$1,500,000	0.8%	16.0%
VT	\$2,750,000	0.8%	16.0%
WA	\$2,079,000	10.0%	20.0%
IA	N/A	0.0%	15.0%
KY	N/A	0.0%	16.0%
NE	N/A	1.0%	15.0%
PA	N/A	0.0%	15.0%
MD	\$2,000,000	16.0%/0.0%	16.0%/10.0%
NJ	\$2,000,000 ⁶	0.8%/0.0%	16.0%/16.0%

Note: Exemption amounts are shown for state estate taxes only. Inheritance taxes are levied on the posthumous transfer of assets based on the relationship to the decedent; different rates and exemptions apply depending on the relationship. Source: Family Business Coalition; state statutes

¹ Internal Revenue Service (via <https://www.irs.gov/pub/irs-soi/ninetyestate.pdf>)

² The Joint Committee on Taxation, March 16, 2015 (via <https://www.jct.gov/publications.html?func=startdown&id=4744>)

³ 2013 is the most recent data available. Source: Tax Policy Center (via <http://www.taxpolicycenter.org/sites/default/files/legacy/numbers/content/PDF/T13-0020.pdf>)

⁴ Tax Foundation (via <http://taxfoundation.org/blog/does-your-state-have-estate-or-inheritance-tax-0>)

⁵ Through March 31, 2017.

⁶ Through January 1, 2018.

4. Change Is the Norm

The history of the estate tax is one of constant change. Just over the last decade the estate tax has evolved via:



These ongoing changes signal a need for investors to pay close attention. Estates grow, laws change, and so investors need to ensure that they have a long-term view and plan in case the tax becomes relevant to them.

⁷ 2006-2008: 2 million; 2009: 3.5 million; 2010: N/A; 2011: 5 million; 2012: 5.12 million; 2013: 5.25 million; 2014: 5.34 million; 2015: 5.43 million; 2016: 5.45 million; 2017: 5.49 million.

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