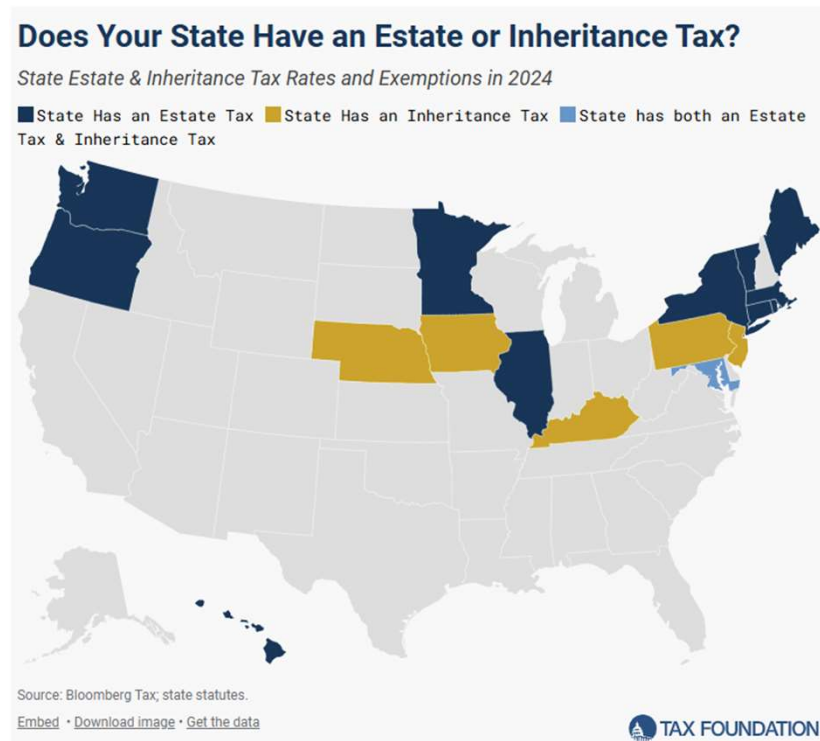


While many in the financial planning community had anticipated an estate planning renaissance of sorts driven by the sunset of the Tax Cuts and Jobs Act at the end of 2025, the results of the election paint a different picture.

Over the relatively recent past, anyone active in the estate planning market has looked to the end of 2025 as a major milestone. The potential sunset of some of the provisions of the Tax Cuts and Jobs Act, absent action by Congress, would result in one of the largest changes to U.S. Tax code in history. Unified government with Republican control has changed that outlook dramatically. Rather than anticipating a sunset, many experts now believe an extension of current law or even a complete repeal of the estate tax as more likely outcomes. It seems that the long history of significant, periodic change in the relevant laws will be extended.

That said, there is another transfer tax that behaves quite differently in terms of frequency of change: State level estate or inheritance taxes. Just over a third of states currently have some sort of tax in place, and if state level budget forecasts are any indication, there may be others considering implementing some type of transfer tax.

Figure 1: States with Estate and/or Inheritance Taxes ¹



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An Estate Planning Renaissance of a Different Sort

The anticipated sunset of the Tax Cuts and Jobs Act in 2025 may no longer bring sweeping federal estate tax changes. Instead, state-level estate and inheritance taxes are emerging as critical planning considerations, with some states proposing new transfer tax laws.

It is important to note that these taxes are far more predictable than anything we've seen at the federal level. A quick look at [2020](#) and [2016](#) estate and inheritance tax summaries uncovers a very stable list of states, with exemption amounts and tax rates that have not materially changed. The result? Planning for these taxes should be viewed differently than federal estate taxes. If a client lives in one of these states it is quite likely their estate will be subject to these taxes, making them an important planning consideration.

The other element impacting this topic focuses on states that currently do not have any kind of transfer tax. There are two trends to follow on this question, including the forward-looking budget outlook in a specific state and the multiple states considering implementing new transfer taxes. Budget forecasts obviously vary by state, but the relatively recent past has driven a specific fact pattern across all states: The massive infusion of cash from the federal government during the COVID era. These funds have now largely been spent, and the growth in state level surpluses either has or will come to an end shortly. ² This trend, plus increasing pressure on state budgets from climate change and caring for an aging population are causing states to consider implementing new taxes, with a particular focus on the wealthy. Table 1, below, details where new or increased taxes are being considered.

Table 1: States Considering New Wealth or Transfer Taxes

As of November 2024, several U.S. states are considering or have proposed implementing wealth or transfer taxes to address income inequality and generate additional revenue. Notable developments include:

California	Legislators have proposed a wealth tax targeting individuals with net worths exceeding \$50 million, with higher rates for billionaires. This initiative aims to tax the state's wealthiest residents to fund public services. ³
New York	Proposals include a "mark-to-market" tax on unrealized capital gains, requiring residents to pay taxes on the increased value of their assets annually, regardless of whether they've sold them. ⁴ Similar proposals aim to reduce estate tax exemptions, thereby increasing the number of estates subject to state-level estate taxes. ⁵
Washington	Lawmakers have introduced a 1% tax on financial assets exceeding \$250 million, excluding the first \$250 million from taxation. This measure targets the state's wealthiest individuals. ⁶
Illinois	Legislative efforts to introduce wealth taxes or increase taxes on high-income earners, reflecting a broader trend among states to address wealth disparities, have been seen. ³
Connecticut	Legislative efforts to introduce wealth taxes or increase taxes on high-income earners, reflecting a broader trend among states to address wealth disparities, have been seen. ³ Lawmakers have proposed lowering the estate tax exemption, which would subject more estates to taxation upon the owner's death. ⁵
Hawaii	Legislative efforts to introduce wealth taxes or increase taxes on high-income earners, reflecting a broader trend among states to address wealth disparities, have been seen. ³ Similar proposals aim to reduce estate tax exemptions, thereby increasing the number of estates subject to state-level estate taxes. ⁵
Maryland	Legislative efforts to introduce wealth taxes or increase taxes on high-income earners, reflecting a broader trend among states to address wealth disparities, have been seen. ³ Similar proposals aim to reduce estate tax exemptions, thereby increasing the number of estates subject to state-level estate taxes. ⁵

These initiatives reflect a growing movement among states to implement taxes targeting wealth accumulation and transfers, aiming to reduce income inequality and bolster state revenues.

Thankfully, the techniques that have been used to reduce or eliminate federal level estate taxation will also generally work when addressing state level taxation. That said, consulting with an expert with true "local knowledge" of the tax provisions in a client's state is critical. Simplest among those techniques? A life insurance strategy owned outside of the client's estate, ideally integrating with the client's Long-term Care planning.

READY TO PUT US TO WORK ON YOUR NEXT CASE?

¹ <https://taxfoundation.org/data/all/state/estate-inheritance-taxes/>

² <https://www.pewtrusts.org/en/research-and-analysis/articles/2024/01/09/state-budget-problems-spread>

³ <https://taxfoundation.org/blog/state-wealth-tax-proposals/>

⁴ <https://www.wealthmanagement.com/high-net-worth/seven-states-introduce-legislation-aimed-wealthy>

⁵ <https://www.fool.com/money/taxes/articles/7-states-are-proposing-new-wealth-taxes-is-yours-one-of-them>

⁶ <https://www.cbsnews.com/news/wealth-tax-in-8-states-california-new-york-connecticut-washington-illinois>