

The End of an Era for New Jersey Estate Tax: A Tax Cut Followed Closely by Repeal

By: Kevin Koscil
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The end of 2016 marks the end of an era for the New Jersey Estate Tax. Effective January 1, 2017, the New Jersey Estate Tax exemption will increase from \$675,000 to \$2,000,000. This change is applicable for estates of residents dying on or after January 1, 2017, but before January 1, 2018. More importantly, effective January 1, 2018, the New Jersey Estate Tax is repealed.

Originally, the New Jersey Estate Tax was designed to equal the credit allowed under federal estate tax law for state death taxes paid by a decedent's estate. Gradually, the state death tax credit was eliminated from federal law, but New Jersey was unwilling to give up its Estate Tax revenue. Accordingly, on July 1, 2002, New Jersey revised its Estate Tax law so that the Estate Tax would be calculated according to the terms of the federal estate tax law in effect on December 31, 2001. The exemption at that time was \$675,000, meaning that residents' taxable estates in excess of \$675,000 would be subject to New Jersey Estate Tax. That is true only through 2016.

The sting of the New Jersey Estate Tax will be severely reduced as of January 1, 2017 when the exemption increases to \$2,000,000 and it will be completely eliminated for residents dying on or after January 1, 2018.

Many New Jersey residents' estate plans include sophisticated strategies aimed at reducing New Jersey Estate Tax. While some individuals may take this opportunity to consider streamlining their plans, flexibility remains a key component of any estate plan. Especially in the current legislative environment, one can never know what the future will hold in terms of tax policy.

It is important to note that the New Jersey Inheritance Tax remains in effect. Where applicable, rates range from 11% to 16%, depending on the relationship between the recipient of the inherited asset and the decedent. However, transfers to a spouse, as well as lineal descendants and ancestors, are exempt from the New Jersey Inheritance Tax.

Lastly, we note that Governor Christie affirmed that New Jersey will continue to abide by the terms of the reciprocal income tax agreement with Pennsylvania after threatening to withdraw from it earlier this year.

If you would like to discuss how these changes affect your estate plan, please contact Kevin Koscil (koscilk@whiteandwilliams.com; 215-864-6827), Bill Hussey (husseyw@whiteandwilliams.com; 215-864-6257), Suzanne Prybella (prybellas@whiteandwilliams.com; 215-864-7188), or Lou Rubino (rubinol@whiteandwilliams.com; 856-317-3662).

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