CORIENT

New, Preferred State Income Tax and Estate Planning Strategies 2023

The Tax Cuts and Jobs Act of 2017 raised the estate tax exemption to more than $11 million (as of the publication of this article, the Federal estate tax exemption has risen to $12.92 million due to inflation adjustments and is projected to eclipse $13.6 million starting in 2024). In doing so, made state taxes more relevant from a planning perspective. Consider that the Act not only limited the federal tax deduction for state taxes but also made it so the federal estate tax applies to very few people. And even though the provision is scheduled to expire on December 31, 2025, state taxes have become more critical to retirement and estate planning.

STATE TAXES TO CONSIDER FOR ESTATE PLANNING

Many factors affect the decision of where to live in retirement. Where other family members reside and the cost of living, familiarity of surroundings and weather can all play a critical role in the decision process. For some, the efficient transfer of wealth is critically important. With state estate tax rates as high as 20% and income tax rates ranging from 0% to more than 13%, the state tax bite represents a significant impediment to the preservation of retirement income and family wealth.

Exhibit 1 lists the states alphabetically and shows each state's pertinent tax rates. Taxes imposed by each state vary widely. For example, Illinois does not tax retirement income distributions but levies a 16% estate tax on accumulated wealth. Taxes that should be considered include:

- **City and County Income Taxes** — These aren't included in our calculations, but cities like New York and Philadelphia often have city taxes that should be considered in planning.
- **State Estate Taxes** — Several states no longer levy an estate tax, but some still do, and others could reinstate them, so these should be considered carefully.
- **State Gift Taxes** — Although Connecticut is the only state that levies a gift tax, in some states, the estate tax is determined by factoring in lifetime transfers or lifetime gifts, so these may need to be considered.
- **State Inheritance Taxes** — Iowa, Kentucky, Nebraska, New Jersey and Pennsylvania levy inheritance taxes—paid by the inheritor—rather than estate taxes, so consider that the person inheriting assets will pay the tax.

Financial planning to reduce all types of state taxes can have a material effect on current available income and the transfer of wealth to future generations. For example, let's say that a high-net-worth couple earns $250,000 in portfolio income each year. If they live in retirement for twenty-five years in a state with no income taxes, they could accumulate upward of an additional million dollars of wealth to transfer to their family compared to living in high income tax jurisdictions.

DEVELOPING NEW, PREFERRED ESTATE PLANS AFTER TAX REFORM

A state's ability to tax trust income seems to be slipping away after the 2019 U.S. Supreme Court *Kaestner* decision, which held that states cannot tax the income of an out-of-state trust based on the beneficiary's location. That decision paved the way for more creative trust planning throughout the United States, as states are increasingly looking to high earners to add to state coffers. More than 10 states lowered income tax rates since 2021, while just a few jurisdictions increased state income tax rates. Washington D.C., Washington State, and New York both have hiked rates as of late, resulting in a lower rank for Washington State and New York.

These recent developments dramatically changed the preferred method of drafting wills and trusts for most people:

1. The higher estate tax exemption enacted in 2017
2. The exemption's portability—which means the surviving spouse may use a deceased spouse's unused federal estate tax exemption

Those two changes have drastically reduced the application of the federal estate tax.

Estate Planning after Tax Reform

New Document Format	**Income Tax Basis Planning**
State Tax Planning	**Asset Protection** Back-Door Prenuptial

NEW, PREFERRED DOCUMENT FORMAT

Previously, wills and trusts for spouses in high and ultra-high net worth households had to be drafted in a rather complex manner that included credit shelters and marital trusts that caused less than optimal results. Today, wills and trusts can be drafted in a simpler format: all assets transfer to the surviving spouse, but with a survivor's option to utilize the decedent's estate tax exemption by disclaiming all or a portion of the inherited amount into a "credit shelter" trust, if desired. This new, mainstream approach can be further refined by implementing the following in documents:

Outright to the Spouse or Marital Trust — All assets of a decedent may be given outright to the surviving spouse or placed into a marital trust for the surviving spouse's benefit. This protects assets if the decedent and survivor were in a second marriage or the survivor remarries.

Disclaimer Credit Shelter Trust — If the surviving spouse chooses to disclaim (usually for tax reasons) any assets received from the decedent, they are placed into a "disclaimer trust" that serves as a credit shelter trust. That forces the use of the decedent's federal and state estate tax exemptions. Most state exemptions are not portable, so the disclaimer trust may prove critical in planning to minimize state estate taxes.

Trusts for Children and the "Back-door Prenuptial" — After both parents are deceased, family assets can be given to children outright or put in a trust. If parents are concerned about exposing family assets to divorce claims, they should consider putting their children's inheritances in trusts that do not terminate at a certain age and make discretionary distributions. Using a "grantor gift trust," for example, can protect the gifts from divorce claims and creditors.

Also, the trust can be set up so that the person setting up the trust (e.g., parent, grandparent) can pay the trust's income tax liabilities, enabling the trust to grow income tax-free while also serving to diminish the grantor's estate for federal and state estate tax purposes. Preparing a detailed retirement cash flow plan will help determine a person's financial flexibility to implement irrevocable tax-saving strategies.

STRATEGIES FOR LARGE IRA OR QUALIFIED PLAN BALANCES

For those with large qualified plan or IRA balances, several strategies are available to minimize overall income and estate taxes, including:

Roll Over to Spouse and Transfer the Exemption (Portability) — If the person lives in a state with no estate tax but has an estate that will be subject to federal estate taxes, one strategy is to defer the use of the federal exemption for the first spouse to die via portability so that future required minimum distributions (and taxes thereon) reduce the size of the tax-deferred asset that is subject to federal estate taxation at the surviving spouse's death.

Use the "Exemption Early" Strategy (Do Not Rely on Portability) — If the person lives in a state with an estate tax, it may make sense to use that person's state and federal estate tax exemptions upon the first spouse's death. Even though the federal exemption will be used "early," and required minimum distributions will diminish the estate that has already used part of the federal exemption, utilizing the state estate tax exemption may make sense in some cases.

SECURE Act — The SECURE 2.0 Act of 2022 pushed the age for required minimum distributions from pre-tax retirement accounts from 72 years old back to 73 in 2023, then further out to age 75 starting in 2033. This potentially allows retirees and others more time to convert qualified (tax-deferred) assets to Roth, lowering future required minimum distributions and retirement income tax burdens.

Another provision of SECURE 2.0 is the increased catch-up contribution limits in employer-sponsored retirement plans for those age 60, 61, 62, and 63. Starting in 2025, the catch-up contribution limit is increased to the greater of $10,000 or 50% more than the regular catch-up amount in place at the time. With more employees potentially putting even more tax-deferred savings away in future years, this could lead to larger pre-tax 401(k) balances heading into retirement. With that comes larger required minimum distributions and potentially higher tax bills in retirement. Roth conversion planning could prove to be even more important in future years. Therefore, increased consideration should be given to:

1. How state taxes affect the Roth conversion
2. What states the IRA beneficiaries live in, and how those states tax IRA distributions

There is power in the Roth IRA conversion if approached thoughtfully.

Conversion to Roth IRA — Traditional IRAs have “built-in” income tax liabilities since someone must pay income tax on distributions. Converting a traditional IRA to Roth makes sense when the owner’s state does not levy state income tax on the conversion and payment of the federal tax reduces the IRA owner’s estate for federal or state estate tax purposes. These conversions could make sense if the account owner believes they will be in a higher tax bracket during retirement and would pay a lower rate on the conversion today.

It is important to note that someone must pay the income tax on traditional IRAs and qualified plan balances. Converting to a Roth does require tax payment on the conversion, but that payment reduces the taxable estate. Also, there are no required minimum distributions to the original owner of a Roth IRA, which has the distinction of building up income tax-free.

Use caution when children who inherit traditional IRAs live in states that tax IRA income. People who live in Alaska, Florida, Illinois, Mississippi, Nevada, New Hampshire, Pennsylvania, South Dakota, Tennessee, Texas, Washington and Wyoming have an advantage: no state tax on IRA income.

Back-Door Roth IRA Strategy — Roth IRAs have income limits prohibiting those with higher incomes from making contributions directly into and the account (those earning $138,000 and filing single, head of household or married filing separately or $218,000 for those married filing jointly or qualifying widow(er) in 2023 begin to get phased out). Individuals in these tax brackets should consider the back-door Roth IRA Strategy, which involves an individual making a nondeductible IRA contribution and converting those funds into a Roth IRA to allow for tax-free growth. The contribution may or may not be deductible, depending on income, and the distribution to get the funds into the Roth could be taxable, but the assets will grow tax-free.

INCOME TAX AND BASIS PLANNING

Now that income taxes are the focus in estate planning, the following should be top-of-mind:

Disclaimer Format — The new, preferred “disclaimer” credit shelter format described above causes the income tax basis of all assets (with some exceptions) given to the surviving spouse to be “stepped up” to fair market value at the date of death. When the survivor passes, the tax basis of assets is stepped up again to fair market value. The new format is preferred, given the opportunity for better income tax basis planning.

Community Property — Those living in community property states—Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin—enjoy special income tax benefits associated with community property laws. Community property assets can receive a double income tax basis step-up: one when the first spouse passes and then another when the survivor passes.

Despite not being community property states, there are several states that allow married couples to form community property trusts including Alaska (which offers optional community property), Florida, Kentucky, South Dakota, and Tennessee. However, the trust must be written with specific language that clearly indicates this is the intent of both spouses.

State Exemptions are Not Portable — Except for Hawaii and Maryland, state exemptions are not portable. Therefore, if the state exemption is not used by the first spouse to die, it is lost forever. In states where the estate or inheritance tax exemption is extremely low, like Massachusetts, Minnesota, Oregon, Rhode Island and Washington, failing to use the exemption of the first spouse to die can have a damaging effect on the preservation of family wealth.

Gifting — See Trusts for Children and the “Back-Door Prenuptial” above.

Real Estate Owned in Estate Tax States — Strategies for real estate owned in states with an estate tax should be examined closely to see if the tax can be mitigated or eliminated.

OTHER CONSIDERATIONS

Early Use of Estate Tax Exemptions is Optimal — Federal and possibly some state estate tax exemptions may be used during life rather than waiting until death. The federal exemption may be used against gifts made during life and transfers at death. Lifetime use of the exemptions is optimal for two main reasons:

1. **Estate Tax.** At death, transfers to heirs are tax inclusive since the transfers to intended heirs carry the burden of the federal and state estate taxes levied on the estate.

2. **Gift Tax.** During life, transfers to gift recipients are tax exclusive since the transferor pays any gift tax, and generally, states do not levy gift taxes. The exceptions are Connecticut's gift tax and states like Illinois, Maine, New York and Vermont that pull lifetime gifts back into the state estate tax equation. Other states may also pull gifted assets back into the estate tax calculation. The growth of gifted assets escapes future estate taxation. In addition, using the new high federal exemption now may prove critically important if future legislation ever reduces it.

Several trust techniques exist to transfer wealth more efficiently, especially in states that favorably tax trust income. Preparing a detailed retirement cash flow plan will help determine a person's financial flexibility to implement irrevocable tax-saving strategies.

Establishing Residency in Another State — People choose to become a resident of another state for many reasons, including taxes. With states scrutinizing residency, care must be taken to ensure that the move results in the tax certainty one is looking for. (For example, Illinois recently ruled that people can escape state taxes when permanently moving to another state, even if they continue to own a home in Illinois.) There are, however, no defined steps to ensure that a person is, in fact, a resident of another state, but rather, there is a series of actions generally required to prove that person has given up residency in one jurisdiction and now is a bona fide resident of another. These may include giving up homeowner exemptions on the home you do not live in, among other things.

Forming Trusts in Other States — The lure of lower taxes elsewhere often is not enough to motivate someone to move away. For those who cannot bear the thought of permanently leaving home, having investment income taxed in another state may be a consideration. One strategy is to have trusts located in the most favorable states without estate taxes that do not tax trust income: Florida, Alaska, South Dakota, Tennessee, Texas, Washington (capital gains tax could apply), Nevada and Wyoming. It should be noted that, effective January 1, 2022, Washington enacted a 7% state capital gains tax on capital gain income in excess of $250,000 (certain exceptions and deductions apply) so higher income taxpayers who reside in Washington could be affected by this new tax.

Of course, this can present a problem to trust beneficiaries located in states that do tax trust income. States are often aggressive in having their residents recognize income earned by out-of-state trusts, but that thinking is subject to the *Kaestner* case mentioned previously. If a trust is formed in a "no-tax" state by a resident who later leaves the jurisdiction but retains a trustee in the no-tax state, there is a chance the trust income can escape state taxation so long as the income stays in the no-tax state. Great care must be taken in forming trusts that look to escape the reach of state taxation.

Business Owners — **New Residency Before the Sale** — Business owners considering the sale of their business should consider the effect of state taxes. From a management perspective, changing residency long before the sale, if possible, could result in significant state tax savings. The business owner should consult with tax counsel to determine if such a move will result in the desired tax savings. The seller must effectively relinquish all connections to the "old," higher tax state.

In Conclusion, state taxes have a material effect on the accumulation and transfer of family wealth. Studies show that high state taxes cause millionaires to move to lower tax jurisdictions. For example, **Florida** experienced the largest net in-migration of over 318,000 people in 2022, with **Texas** not far behind, while **California**, **New York**, **Illinois** and **New Jersey** had the largest outflow of individuals over the same period.

Recently in the spotlight, Jeff Bezos announced a change in residency from **Washington** to **Florida**. While Bezos quoted his parents and business location as a reason for the move, it threatens a proposed **Washington** wealth tax which would levy a 1% tax on tradeable net worth above $250 million. State officials estimated the proposal would raise $3.2 billion per year once enacted. However, the revenue from Bezos alone was projected to be $1.44 billion annually which is now leaving the state. There is no certainty that taxes were a consideration in his decision to move, but by doing so he escapes this proposed wealth tax, **Washington**'s new 7% capital gains tax (levied on capital gains above $250k, exceptions and deductions apply) and 20% state estate tax.

From an overall tax perspective, **Alaska**, **Florida**, **Nevada**, **South Dakota**, **Tennessee**, **Texas** and **Wyoming** are generally the best states to retire to. **New Hampshire** is also favorable but levies tax on interest and dividend income. The final analysis largely depends on sources of income and where a person's wealth is located. Each person's tax considerations are unique, requiring a close analysis of the vastly different state tax systems.

Exhibit 1: Alphabetical Order by State, 2023 Update

Top 1/3 | Middle 1/3 | Bottom 1/3

												Estate Tax		Inheritance Tax		Gift Tax	
States	Current Rank 2023	Prior Rank 2018	Cmty. Property State[1]	W-2	Capital Gains	Interest Dividends	IRA	Pension	Social Security	Combd. Sales Tax Rate[3]	Real Est. Tax % of Home Val.[4]	Top Rate	Exempt.	Top Rate	Exempt.	Top Rate	Exempt.
AL	21	12		5.00%	5.00%	5.00%	5.00%	5.00%	0.00%	9.24%	0.40%	0.00%[5]		N/A		N/A	
AK	2	2	C	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.81%	1.04%	0.00%[5]		N/A		N/A	
AZ	10	36	C	2.98%	2.98%	2.98%	2.98%	2.98%	0.00%	8.37%	0.63%	0.00%[5]		N/A		N/A	
AR	16	22		4.70%	2.40%	4.70%	4.70%	4.70%	0.00%	9.44%	0.64%	0.00%[5]		N/A		N/A	
CA	38	38	C	13.30%	13.30%	13.30%	13.30%	13.30%	0.00%	8.85%	0.75%	0.00%[5]		N/A		N/A	
CO	17	16		4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	7.79%	0.55%	0.00%[5]		N/A		N/A	
CT	50	50		6.99%	6.99%	6.99%	6.99%	6.99%	6.99%[2]	6.35%	1.79%	12.00%	$12.92M	N/A		12.00%	$12.92M
DE	23	20		6.60%	6.60%	6.60%	6.60%	6.60%	0.00%	0.00%	0.61%	0.00%[5]		N/A		N/A	
DC	40	40		10.75%	10.75%	10.75%	10.75%	10.75%	0.00%	6.00%	0.62%	16.00%	$4.528M	N/A		N/A	
FL	3	3		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	7.02%	0.91%	N/A		N/A		N/A	
GA	27	21		5.75%	5.75%	5.75%	5.75%	5.75%	0.00%	7.39%	0.92%	N/A		N/A		N/A	
HI	36	37		11.00%	7.30%	11.00%	11.00%[2]	0.00%	0.00%	4.44%	0.32%	20.00%	$5.49M	N/A		N/A	
ID	25	27	C	5.80%	5.80%	5.80%	5.80%	5.80%	0.00%	6.02%	0.67%	0.00%[5]		N/A		N/A	
IL	39	39		4.95%	4.95%	4.95%	0.00%	0.00%	0.00%	8.84%	2.08%	16.00%	$4M	N/A		N/A[2]	
IN	9	10		3.23%	3.23%	3.23%	3.23%	3.23%	0.00%	7.00%	0.84%	N/A		N/A		N/A	
IA	44	43		8.53%	8.53%	8.53%	8.53%	8.53%	0.00%	6.93%	1.52%	0.00%[5]		6.00%	$25,000	N/A	
KS	35	29		5.70%	5.70%	5.70%	5.70%	5.70%	5.70%	8.75%	1.34%	0.00%[5]		N/A		N/A	
KY	30	28		4.50%	4.50%	4.50%	4.50%	4.50%	0.00%	6.00%	0.83%	0.00%[5]		16.00%	$500	N/A	
LA	13	26	C	4.25%	4.25%	4.25%	4.25%	4.25%	0.00%	9.55%	0.56%	0.00%[5]		N/A		N/A	
ME	48	46		7.15%	7.15%	7.15%	7.15%	7.15%	0.00%	5.50%	1.24%	12.00%	$6.41M	N/A		N/A[2]	
MD	42	49		5.75%	5.75%	5.75%	5.75%	5.75%	0.00%	6.00%	1.05%	16.00%	$5M	10.00%	$1,000	N/A	
MA	37	34		5.00%	12.00%	5.00%	5.00%	5.00%	0.00%	6.25%	1.14%	16.00%	$1M	N/A		N/A	
MI	12	11		4.05%	4.05%	4.05%	4.05%	4.05%	0.00%	6.00%	1.38%	0.00%[5]		N/A		N/A	
MN	49	48		9.85%	9.85%	9.85%	9.85%	9.85%	9.85%	7.52%	1.11%	16.00%	$3M	N/A		N/A	
MS	11	9		5.00%	5.00%	5.00%	0.00%	0.00%	0.00%	7.06%	0.67%	0.00%[5]		N/A		N/A	
MO	31	30		4.95%	4.95%	4.95%	4.95%	4.95%	4.95%	8.36%	1.01%	0.00%[5]		N/A		N/A	
MT	33	33		6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	0.00%	0.74%	0.00%[5]		N/A		N/A	
NE	46	45		6.84%	6.84%	6.84%	6.84%[2]	6.84%[2]	6.84%	6.97%	1.63%	0.00%[5]		15.00%	$25,000	N/A	
NV	4	4	C	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	8.24%	0.59%	0.00%[5]		N/A		N/A	
NH	8	8		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.93%	N/A		N/A		N/A	
NJ	47	47		10.75%	10.75%	10.75%	10.75%	10.75%	0.00%	6.60%	2.23%	0.00%[5]		16.00%	$500	N/A	
NM	32	32	C	5.90%	3.54%	5.90%	5.90%	5.90%	5.90%	7.60%	0.67%	0.00%[5]		N/A		N/A	
NY	45	44		10.30%	10.30%	10.30%	10.30%	10.30%	0.00%	8.53%	1.40%	16.00%	$6.58M	N/A		N/A	
NC	14	15		4.75%	4.75%	4.75%	4.75%	4.75%	0.00%	7.00%	0.82%	N/A		N/A		N/A	
ND	15	13		2.90%	1.74%	2.90%	2.90%	2.90%	2.90%	7.04%	0.98%	0.00%[5]		N/A		N/A	
OH	22	24		4.99%	4.99%	4.99%	4.99%	4.99%	0.00%	7.24%	1.59%	N/A		N/A		N/A	
OK	18	14		4.75%	4.75%	4.75%	4.75%	4.75%	0.00%	8.99%	0.89%	N/A		N/A		N/A	
OR	41	42		9.90%	9.90%	9.90%	9.90%	9.90%	0.00%	0.00%	0.93%	16.00%	$1M	N/A		N/A	
PA	24	23		3.07%	3.07%	3.07%	0.00%	0.00%	0.00%	6.34%	1.49%	0.00%[5]		15.00%		N/A	
RI	43	41		5.99%	5.99%	5.99%	5.99%	5.99%	5.99%	7.00%	1.40%	16.00%	$1.733M	N/A		N/A	
SC	29	25		7.00%	3.92%	7.00%	7.00%	7.00%	0.00%	7.50%	0.57%	0.00%[5]		N/A		N/A	
SD	5	5		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	6.11%	1.17%	0.00%[5]		N/A		N/A	
TN	6	6		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	9.55%	0.67%	N/A		N/A		N/A	
TX	7	7	C	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	8.20%	1.68%	0.00%[5]		6.00%		N/A	
UT	19	18		4.65%	4.95%	4.65%	4.65%	4.65%	4.65%	7.20%	0.57%	0.00%[5]		N/A		N/A	
VT	51	51		8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	6.36%	1.83%	16.00%	$5M	15.00%		N/A[2]	
VA	21	17		5.75%	5.75%	5.75%	5.75%	5.75%	0.00%	5.77%	0.87%	0.00%[5]		16.00%		N/A	
WA	26	19	C	0.00%	7.00%[6]	0.00%	0.00%	0.00%	0.00%	9.40%	0.87%	20.00%	$2.193M	N/A		N/A	
WV	28	31		5.12%	5.12%	5.12%	5.12%	5.12%	5.12%[2]	6.57%	0.57%	0.00%[5]		N/A		N/A	
WI	34	35	C	7.65%	7.65%	7.65%	7.65%	7.65%	0.00%	5.43%	1.61%	0.00%[5]		N/A		N/A	
WY	1	1		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	5.44%	0.56%	0.00%[5]		N/A		N/A	

[1] AK: may opt-in. AK, FL, KY, SD, TN: may form community property trust.
[2] See endnote.
[3] Sum of State Rate and Avg. Local Tax Rate, July 2023. Source: Tax Foundation.
[4] 2021. Source: Tax Foundation.
[5] No Tax since tied to Federal State Death Tax Credit was eliminated in 2005.
[6] Applies to capital gain income over $250,000.

Exhibit 1: Ranking All Taxes, 2023 Update

Top 1/3 | Middle 1/3 | Bottom 1/3

States	Current Rank 2023	Prior Rank 2018	Cmty. Property State[1]	W-2	Capital Gains	Interest Dividends	IRA	Pension	Social Security	Combd. Sales Tax Rate[3]	Real Est. Tax % of Home Val.[4]	Estate Tax Top Rate	Estate Tax Exempt.	Inheritance Tax Top Rate	Inheritance Tax Exempt.	Gift Tax Top Rate	Gift Tax Exempt.
WY	1	1		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	5.44%	0.56%	0.00%[5]		N/A		N/A	
AK	2	2	C	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.81%	1.04%	0.00%[5]		N/A		N/A	
FL	3	3		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	7.02%	0.91%	N/A		N/A		N/A	
NV	4	4		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	8.24%	0.59%	0.00%[5]		N/A		N/A	
SD	5	5	C	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	6.11%	1.17%	0.00%[5]		N/A		N/A	
TN	6	6		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	9.55%	0.67%	N/A		N/A		N/A	
TX	7	7	C	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	8.20%	1.68%	0.00%[5]		N/A		N/A	
NH	8	8		0.00%	0.00%	5.00%	0.00%	6.60%	0.00%	0.00%	1.93%	0.00%[5]		N/A		N/A	
ID	9	10		3.23%	3.23%	3.23%	3.23%	3.23%	0.00%	7.00%	0.84%	N/A		N/A		N/A	
AZ	10	36	C	2.98%	2.98%	2.98%	2.98%	2.98%	0.00%	8.37%	0.63%	0.00%[5]		N/A		N/A	
MS	11	9		5.00%	5.00%	5.00%	0.00%	0.00%	0.00%	7.06%	0.67%	0.00%[5]		N/A		N/A	
MI	12	11		4.05%	4.05%	4.05%	4.05%	0.00%	0.00%	6.00%	1.38%	0.00%[5]		N/A		N/A	
LA	13	26	C	4.25%	4.25%	4.25%	4.25%	4.25%	0.00%	9.55%	0.56%	0.00%[5]		N/A		N/A	
NC	14	15		4.75%	4.75%	4.75%	4.75%	4.75%	0.00%	7.00%	0.82%	N/A		N/A		N/A	
ND	15	13		2.90%	1.74%	2.90%	2.90%	2.90%	2.9%	7.04%	0.98%	0.00%[5]		N/A		N/A	
AR	16	22		4.70%	2.40%	4.70%	4.70%	4.70%	0.00%	9.44%	0.64%	0.00%[5]		N/A		N/A	
CO	17	16		4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	7.79%	0.55%	0.00%[5]		N/A		N/A	
OK	18	14		4.75%	4.75%	4.75%	4.75%	4.75%	0.00%	8.99%	0.89%	N/A		N/A		N/A	
UT	19	18		4.65%	4.65%	4.65%	4.65%	4.65%	4.65%	7.20%	0.57%	0.00%[5]		N/A		N/A[2]	
AL	20	12		5.00%	5.00%	5.00%	5.00%	5.00%	0.00%	9.24%	0.40%	0.00%[5]		N/A		N/A	
VA	21	17		5.75%	5.75%	5.75%	5.75%	5.75%	0.00%	5.77%	0.87%	0.00%[5]		N/A		N/A	
OH	22	24		4.99%	4.99%	4.99%	4.99%	4.99%	0.00%	7.24%	1.59%	N/A		N/A		N/A	
DE	23	20		6.60%	6.60%	6.60%	6.60%	6.60%	0.00%	0.00%	0.61%	0.00%[5]		N/A		N/A	
PA	24	23		3.07%	3.07%	3.07%	0.00%	0.00%	0.00%	6.34%	1.49%	0.00%[5]		15.00%		N/A	
ID	25	27	C	5.80%	5.8%	5.80%	5.80%	5.80%	0.00%	6.02%	0.67%	0.00%[5]		N/A		N/A	
WA	26	19	C	0.00%	7.00%[6]	0.00%	0.00%	0.00%	0.00%	9.40%	0.87%	20.00%	$2.193M	N/A		N/A	
GA	27	21		5.75%	5.75%	5.75%	5.75%	5.75%	0.00%	7.39%	0.92%	N/A		N/A		N/A	
WV	28	31		5.12%	5.12%	5.12%	5.12%	5.12%	5.12%[2]	6.57%	0.57%	0.00%[5]		N/A		N/A	
SC	29	25		7.00%	3.92%	7.00%	7.00%	7.00%	0.00%	7.50%	0.57%	0.00%[5]		N/A		N/A	
KY	30	28		4.50%	4.50%	4.50%	4.50%	4.50%	0.00%	6.00%	0.83%	0.00%[5]		16.00%	$500	N/A	
MO	31	30		4.95%	4.95%	4.95%	4.95%	4.95%	4.95%	8.36%	1.01%	0.00%[6]		N/A		N/A	
NM	32	32	C	5.90%	3.54%	5.90%	5.90%	5.90%	5.90%	7.60%	0.67%	0.00%[5]		N/A		N/A	
MT	33	33		6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	0.00%	0.74%	0.00%[5]		N/A		N/A	
WI	34	35	C	7.65%	7.65%	7.65%	7.65%	7.65%	0.00%	5.43%	1.61%	0.00%[5]		N/A		N/A	
KS	35	29		5.70%	5.70%	5.70%	5.70%	5.70%	5.70%	8.75%	1.34%	0.00%[5]		N/A		N/A	
HI	36	37		11.00%	7.3%	11.00%	11.00%[2]	0.00%	0.00%	4.44%	0.32%	20.00%	$5.49M	N/A		N/A	
MA	37	34		5.00%	12.00%	5.00%	5.00%	5.00%	0.00%	6.25%	1.14%	16.00%	$1M	N/A		N/A	
CA	38	38	C	13.30%	13.30%	13.30%	13.30%	13.30%	0.00%	8.85%	0.75%	0.00%[5]		N/A		N/A	
IL	39	39		4.95%	4.95%	4.95%	0.00%	0.00%	0.00%	8.84%	2.08%	16.00%	$4M	N/A		N/A[2]	
DC	40	40		10.75%	10.75%	10.75%	10.75%	10.75%	0.00%	6.00%	0.62%	16.00%	$4.528M	N/A		N/A	
OR	41	42		9.90%	9.90%	9.90%	9.90%	9.90%	0.00%	0.00%	0.93%	16.00%[5]	$1M	N/A		N/A	
MD	42	49		5.75%	5.75%	5.75%	5.75%	5.75%	0.00%	6.00%	1.05%	16.00%	$5M	10.00%	$1,000	N/A	
RI	43	41		5.99%	5.99%	5.99%	5.99%	5.99%	5.99%	7.00%	1.40%	16.00%	$1.733M	N/A		N/A	
IA	44	43		8.53%	8.53%	8.53%	8.53%	8.53%	0.00%	6.93%	1.52%	0.00%[5]		6.00%	$25,000	N/A	
NY	45	44		10.30%	10.30%	10.30%	10.30%	10.30%	0.00%	8.53%	1.40%	16.00%	$6.58M	N/A		N/A	
NE	46	45		6.84%	6.84%	6.84%	6.84%[2]	6.84%[2]	6.84%	6.97%	1.63%	0.00%[5]		15.00%	$25,000	N/A	
NJ	47	47		10.75%	10.75%	10.75%	10.75%	10.75%	0.00%	6.60%	2.23%	N/A		16.00%	$500	N/A	
ME	48	46		7.15%	7.15%	7.15%	7.15%	7.15%	0.00%	5.50%	1.24%	12.00%	$6.41M	N/A		N/A[2]	
MN	49	48		9.85%	9.85%	9.85%	9.85%	9.85%	9.85%	7.52%	1.11%	16.00%	$3M	N/A		N/A	
CT	50	50		6.99%	6.99%	6.99%	6.99%	6.99%	6.99%[3]	6.35%	1.79%	12.00%	$12.92M	N/A		12.00%	$12.92M
VT	51	51		8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	6.36%	1.83%	16.00%	$5M	N/A		N/A[2]	

[1] AK: may opt-in. AK, FL, KY, SD, TN: may form community property trust.
[2] See endnote.
[3] Sum of State Rate and Avg. Local Tax Rate, July 2023. Source: Tax Foundation.
[4] 2021. Source: Tax Foundation.
[5] No Tax since tied to Federal State Death Tax Credit was eliminated in 2005.
[6] Applies to capital gain income over $250,000.

How Rankings were Determined

Within the income tax category, six different subcategories were examined, ranging from tax rates on W-2 employment earnings to whether or not the particular state levies tax Social Security income. Each jurisdiction was ranked in order from 1 to 51 in each tax category. Other factors, such as the income tax benefits of community property law, caused ratings to be subjectively affected, such as putting Texas ahead of New Hampshire.

Real estate taxes can vary significantly from state to state, so it was important to include them in the study. The data presented by The Tax Foundation was used in this study. Those states with the lowest real estate tax as a percentage of home value received a ranking of 1, while the highest, Illinois and New Jersey, received the poorest rankings of 50 and 51, respectively.

Estate, inheritance and gift taxes are not as straightforward as other taxes examined in the study. The eight states with no estate tax received the best ranking, while those that currently do not levy the tax because of the obsolete federal credit received a favorable but lesser ranking. For the remaining states, the maximum estate and inheritance tax exemption amount, as well as any gift taxes, were considered in arriving at the final ranking.