Taxes on inherited wealth are a traditional and common revenue source for states. Some 17 states and the District of Columbia collect a total of over $4.6 billion per year through either estate or inheritance taxes. Prior to the passage of the federal estate tax cut in 2001, every state levied an estate tax that allowed them to “pick up” a share of federal estate tax revenues. The state “pick-up” estate taxes did not increase total estate tax liability for estates, because estates received a dollar-for-dollar credit that reduced federal taxes owed by the amount they paid to the state. In addition, about a dozen states levied a separate inheritance or estate tax not linked to the federal estate tax, some portion of which typically counted as a credit against federal estate taxes.

As part of the 2001 federal legislation, the federal estate tax credit to which most state estate taxes were tied was repealed. The repeal of the credit for state estate and inheritance taxes was phased in over four years, with repeal fully effective in 2005. (The American Taxpayer Relief Act, enacted in 2013, made that repeal permanent.) The repeal of the credit resulted in the automatic loss of states’ pick-up taxes. Despite this, a number of states retained the revenue that these taxes generated by “decoupling” from the federal tax code. Decoupling means protecting the relevant parts of their state tax code from the changes in the federal tax code, in most cases by remaining linked to federal law as it existed prior to the change. In addition, states that levy stand-alone inheritance or estate taxes not tied to the federal tax code were not affected by the federal legislation.

- Twelve states that levied pick-up taxes prior to 2001 retained estate taxes. Of these, seven states — Illinois, Maryland, Massachusetts, Minnesota, New York, Rhode Island, and Vermont — and the District of Columbia decoupled from the federal estate tax law and continue to levy an estate tax that is the same as or very similar to the earlier pick-up tax. Five states — Connecticut, Hawaii, Maine, Oregon, and Washington — replaced their pick-up taxes with estate taxes that are not tied to the federal tax.
- Five states — Iowa, Kentucky, Nebraska, New Jersey, and Pennsylvania — levy a state inheritance tax that was never tied to the federal tax.
- Maryland also levies an inheritance tax as well as its estate tax that is similar to the pre-2001 pick-up tax.

State thresholds for owing the estate tax differ from the federal threshold. In 2017, the federal government raised the estate tax exemption to $11.2 million for individuals and $22.4 million for married couples, severely limiting the federal tax to only the very wealthiest. States did not follow suit. Currently all the states that continue to levy an estate tax (including those that link to the federal tax rates) set the threshold for owing tax at a lower level than the federal exemption, although Connecticut will raise its exemption to the federal level by 2023.

Additional states could restore their estate taxes by decoupling from the federal law or could enact estate taxes that are similar in structure to the pick-up tax — as Connecticut and Washington did in 2005. A few states, however, have additional barriers to reinstating an estate tax. For example, in California decoupling would require a vote of the people, and in three states — Alabama, Florida, and Nevada — constitutional provisions restricting the amount of estate tax levied would likely need to be altered.

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