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New Jersey Estate Tax to Be Repealed

Governor Christie Signs Bill Eliminating State Estate Tax as of January 1, 2018; Inheritance Tax Is Retained

SUMMARY

Today, New Jersey Governor Christie signed into law a bill that will eliminate the New Jersey estate tax for the estates of New Jersey resident decedents dying on or after January 1, 2018. In addition, for the estates of New Jersey residents dying on or after January 1, 2017 and before January 1, 2018, the exemption from New Jersey's estate tax will be increased from its current \$675,000 amount to \$2 million.

BACKGROUND

New Jersey currently imposes an estate tax on the estates of decedents who were New Jersey residents at the time of their deaths. The value of a New Jersey resident decedent's estate exceeding an exemption amount (currently \$675,000) is subject to state estate tax at progressive rates, with a maximum rate of 16 percent.

DISCUSSION

The new law leaves New Jersey's estate tax regime unchanged for decedents who die before January 1, 2017. For decedents dying on or after January 1, 2017 and before January 1, 2018, the current \$675,000 state estate tax exemption will increase to \$2 million. For the estates of decedents dying on or after January 1, 2018, no state estate tax will be imposed.

The new law leaves intact the New Jersey inheritance tax, which applies to transfers of assets at death by a New Jersey resident, in trust or otherwise, to beneficiaries other than the decedent's spouse, parents, grandparents and descendants and charitable organizations, at rates ranging from 11 to 16 percent. A transfer at death of less than \$25,000 to a decedent's sibling or the spouse of a decedent's child is exempt from the inheritance tax. With the repeal of the New Jersey estate tax, a New Jersey resident will

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be able to avoid New Jersey death tax on transfers to his or her spouse, children, grandchildren and parents.

IMPLICATIONS

New Jersey currently has the lowest estate tax exemption of any state in the United States. With the repeal of its estate tax, New Jersey will become a favored jurisdiction for clients from a state estate tax perspective. This dramatic change can be expected to put pressure on neighboring states, such as New York and Connecticut, to eliminate or reduce their estate taxes.

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