

## New Jersey Phases in Full Estate Tax Repeal

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### SUMMARY

On October 7, 2016, the New Jersey Legislature adopted a comprehensive tax package with important tax cuts, including an end to the estate tax by 2018.

Specifically, the legislation provides the following:

- The current \$675,000 exemption from estate tax will be increased to \$2 million on January 1, 2017, and on January 1, 2018, the estate tax will be completely eliminated. The inheritance tax (a tax on bequests to non-lineal descendants, i.e. individuals who are not children, grandchildren and their descendants ) remains intact.
- Over four years beginning on January 1, 2017, the current exclusions from income tax on retirement income increase from:
  - \$20,000 to \$100,000 for joint filers,
  - \$15,000 to \$75,000 for individuals, and
  - \$10,000 to \$50,000 for married couples who file separately.
- The state sales tax decreases from its present 7 percent to 6.875 percent on January 1, 2017, and to 6.625 percent on January 1, 2018.
- The earned income tax credit, which is available to the working poor, will increase from 30 percent to 35 percent of the federal credit.
- Veterans who were honorably discharged from service will receive a personal exemption from income tax equal to \$3,000.

The quid pro quo for these tax cuts is a 23 cents per gallon increase in the gasoline tax.

The repeal of the estate tax could ease the anxiety of long-time New Jersey residents who have contemplated moving out of state because they want to preserve an inheritance for their children. With passage of the bill, estates can now be directed to children and grandchildren free of tax.

For those who already hurried across the Delaware River to Pennsylvania, which currently taxes estates left to lineal descendants at a fixed 4.5 percent rate, or to states like Florida, Wyoming, Nevada, and New Hampshire, which have no estate tax, those moves might have been premature.

For those who remain in New Jersey, their estate plans might currently provide for mandatory distributions to trusts in order to shelter the estates from New Jersey tax. As a consequence, clients should review their estate planning with their attorneys to find out if current plans have sufficient flexibility in an environment of no state estate tax.

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