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Do states impose death taxes? How does a state death tax differ from the federal estate tax?



Some, but not all, states impose death taxes. Many states, including Illinois, impose a tax based on the credit that used to be allowed for estate taxes paid to a state on the federal estate tax return (this tax is often referred to as a state estate tax). Many of the states that impose such tax provide for a smaller exemption than the federal exemption. Some states impose a death tax based on the relationship of the person inheriting to the decedent and the amount inherited by such person (this tax is often referred to as an inheritance tax). Those closest to the decedent (e.g., a spouse or children or other descendants) are assessed at lower rates and with larger exemption than others (e.g., siblings or their descendants, more distant relations or persons with no blood relationship). A few states impose a tax based on the size of the estate without regard to the old federal credit for state death taxes.

The threshold amount for death taxes for an Illinois estate is \$4 million (which amount would include lifetime taxable gifts counted as the gross estate on a federal estate tax return).

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