



ESTATE PLANNING

State of shock: Solutions to estate and inheritance tax problems

The District of Columbia and 12 states assess estate taxes when a resident dies. Five states assess inheritance taxes, which are paid by beneficiaries. With few exceptions, these taxes are usually due within nine months of death, the rates can be steep and very few assets can pass free of these taxes in some states. Residents in any of the red locations below may have a state death tax problem.



See the back for more information about current tax rates, amounts that can be transferred tax free, and other details.

What you can do about it

A life insurance policy can solve multiple problems created by state estate or inheritance taxes.

If your estate is not liquid, property that you would have left to heirs may need to be sold to pay these taxes. And such property may need to be sold at a discount in order to receive the funds in time to pay the taxes. Life insurance proceeds become available when needed to satisfy various taxes and expenses due at death, including state death taxes, and can be used instead of selling property that you want to keep in the family. This is usually an efficient method of paying such taxes, and if structured properly, the proceeds from a life insurance policy can be excluded from the taxable estate. Further, the named beneficiary of an insurance policy need not pay income or inheritance tax on insurance proceeds.

If you think you might have an estate and/or inheritance tax problem, consult with an accountant, tax attorney and/or financial professional for more information and to determine whether life insurance might be the proper solution for you.

The benefits of life insurance

- Life insurance proceeds are usually paid well before these taxes are due, which could relieve the financial pressure on your loved ones at a difficult and emotional time and spare the need to sell business or sentimental property that you would like them to have.
- Total premiums paid could be far less than the death benefit, providing a net economic increase to your estate and your heirs.
- The named beneficiary generally need not pay inheritance taxes on the death benefit.
- You might be able to avoid paying state estate taxes on the death benefit if the policy and your estate are structured property.

Additional considerations

- You may gift a certain amount each year without paying any gift tax on such amount (e.g., this exclusion amount is \$19,000 per donee in 2026). You may make such gifts to an unlimited number of people each year. These gifts can be used to pay life insurance premiums. Because inheritance tax is not assessed on lifetime gifts, making such gifts to any beneficiary living in a state imposing inheritance taxes can reduce or eliminate the amount of inheritance taxes that such beneficiary would have owed, had these amounts been transferred at death instead of during your lifetime.
- If you plan to divide your estate between heirs living in states with and without an inheritance tax, consider using life insurance with heirs in states imposing an inheritance tax and leaving the other property to other heirs.
- If all of your heirs live in states with an inheritance tax, you might sell some property that would otherwise be subject to inheritance tax and use the proceeds to fund insurance premiums on a policy naming those heirs as beneficiaries.
- Regardless of whether your heirs face a potential inheritance tax, if you plan to leave them a traditional IRA, you could help them avoid additional federal

- income taxes on withdrawals by naming them as the beneficiary of life insurance proceeds instead.¹
- Life insurance proceeds can be excluded from your estate if the policy is purchased by an irrevocable life insurance trust or spousal lifetime access trust. If the latter, your spouse or other third party might be able to access the cash value of the policy in some situations while you are both still living without causing the death benefit to be included in your taxable estate.
- State estate and inheritance taxes are based on the value of property transferred at death, the relationship between the recipient and the decedent, and other factors as determined by state law. Consult with a legal or tax professional to see how state tax laws apply to your particular circumstances and to determine whether a specific life insurance product is appropriate for you, given your estate and/or inheritance tax needs, among other things.

State of shock? The current estate tax rates, inheritance tax rates, amounts that can be transferred without tax and the tax due date for the District of Columbia and the states assessing these taxes are set forth below²:

State or district	Estate tax charged on amounts over	Estate tax rates	Inheritance tax charged on amounts over	Inheritance tax rates	Tax due date (months after death)
Connecticut	\$15 million	12%			6
District of Columbia	\$4.988 million	11.2%			10
Hawaii	\$5.49 million	10-20%			9
Illinois	\$4.0 million ³	0.8-16% ⁴			9
Kentucky			\$500, \$1,000 or unlimited ⁵	4-16%	9
Maine	\$7.0 million	8-12%			9
Maryland	\$5.0 million	0-16%	\$1,000 or unlimited ⁵	10%	9
Massachusetts	\$2.0 million	7.2-16%			9
Minnesota	\$3.0 million	13-16%			9
Nebraska			\$25,000, \$40,000, \$100,000 or unlimited ⁵	1-15%	12
New Jersey			\$0, \$25,000 or unlimited ⁵	11-16%	8
New York	\$7.35 million ⁶	3.06-16%			9
Oregon	\$1.0 million	10-16%			9
Pennsylvania			\$0, \$3,500 or unlimited ⁵	4.5-15%	9
Rhode Island	\$1.838 million	0-16%			9
Vermont	\$5.0 million	16%			9
Washington	\$3.076 million	10-20%			9

¹The SECURE 2.0 Act of 2022 may require the beneficiary to distribute all IRA funds within 10 years, but there are no such restrictions on life insurance proceeds.

²All data current as of January 1, 2026, and derived from state statutes and/or the Department or Revenue (or its equivalent) for the respective jurisdictions.

³A proposed bill would increase the exemption to \$8.0 million. As of January 1, 2026, the bill had advanced out of committee but had not yet been voted on by the full legislative body.

⁴The first \$40,000 in excess of the exemption amount is taxed at 0%.

⁵Difference depends on relationship between deceased and heir.

⁶If the estate is more than 105% of the exemption amount, the exemption is reduced to \$0 and tax is assessed on the entire estate value at the rate of 16%.

If tax-free loans are taken and the policy lapses, a taxable event may occur. Withdrawals (partial surrenders) and loans from life insurance policies classified as modified endowment contracts may be subject to tax at the time the withdrawal or loan is taken and, if taken prior to age 59½, an additional 10% federal tax may apply. Withdrawals and loans reduce the death benefit and cash surrender value.

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