



How Can I Protect My Inheritance from Taxes?

Inheritance Tax: What You Need to Know

If you've recently inherited substantial assets, or expect to in the future, you may be wondering if you'll be required to pay inheritance taxes. Make no mistake, inheritance tax law can be complex and understanding it is crucial to ensure you receive the full benefit of your inheritance. While it's best to consult with an experienced estate attorney and tax professional about the intricacies of any taxes and their specific implications for your inheritance, we want to offer some basic guidance to help you better understand your options and potential obligations.

What Is an Inheritance Tax?

Inheritance tax is a levy imposed on the value of assets received by beneficiaries from the estate of a deceased person. Those assets might include cash, stocks and bonds, retirement accounts, real estate, or personal property.

Factors Affecting Inheritance Tax Liability

Inheritance tax isn't typically categorized into different 'types' like income tax. Instead, it's a single tax whose application and impact are profoundly shaped by specific variables:

Understanding inheritance tax law is crucial to receiving the full benefit of your inheritance.

Who Pays	The beneficiary (the person inheriting the assets) pays the inheritance tax, not the deceased person’s estate.
Taxing Authority	There’s no federal inheritance tax in the U.S. This tax is imposed only by a handful of individual states.
Relationship to Deceased	<p>This is the most significant factor. Tax rates and exemptions are almost always determined by how closely related the beneficiary is to the person who died.</p> <ul style="list-style-type: none"> • Exempt Beneficiaries: Spouses are almost universally exempt from inheritance tax in all states that have it. Many states also exempt direct lineal descendants (like children, grandchildren, and sometimes parents or siblings). • Taxed Beneficiaries (Varying Rates): More distant relatives (e.g., nieces, nephews, cousins) and unrelated individuals (e.g., friends) typically face higher tax rates and lower exemption thresholds compared to close family members.
State of Residence/Property Location	Inheritance tax is only an issue if the deceased lived in a state that levies it, or if they owned property in such a state.

An Inheritance Tax Is Different from an Estate Tax

An estate tax is a tax on the *total value of the deceased’s estate* before distribution, paid by the estate. An inheritance tax is on the *portion received by each heir*, paid by that heir. (Maryland is unique in having both.)

States with an Inheritance Tax

An inheritance tax is a state-level tax paid by beneficiaries who inherit assets from a deceased person. It differs from an estate tax, which is levied on the total value of the deceased’s estate before assets are distributed.

As of 2025, only a few states in the U.S. impose an inheritance tax:

- Kentucky
- Maryland (this is the only state that also imposes a state estate tax)
- Nebraska
- New Jersey
- Pennsylvania

It's important to note that Iowa has been phasing out its inheritance tax. For deaths occurring on or after January 1, 2025, Iowa's inheritance tax will be completely eliminated.

Keep in mind that inheritance tax laws, including exemption amounts and rates, can vary significantly based on the beneficiary's relationship to the deceased. Spouses are typically exempt, and direct lineal descendants (like children and grandchildren) often face lower rates or higher exemptions than more distant relatives or unrelated individuals. Tax laws can change, so it's always wise to consult the most current state regulations.

How KAR Helps You Navigate Inheritance Tax

Navigating the intricacies of inheritance tax, particularly with its state-specific nuances and relationship-based implications, can feel overwhelming. At KAR, we understand that preserving your legacy is about more than just accumulating wealth; it's about ensuring your wealth transitions seamlessly and efficiently to those you intend to benefit. Our team specializes in comprehensive estate planning strategies, collaborating closely with you and legal and tax professionals to identify potential tax liabilities, implement proactive solutions like strategic gifting or trusts, and structuring your assets to maximize what your heirs receive.

Don't leave your legacy to chance—partner with KAR to build a robust plan that addresses every facet of your financial future, including minimizing the impact of inheritance tax. **Contact a KAR wealth advisor today.**



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