The 2026 New York ($7.16M) & Massachusetts ($2.0M) Estate Tax Cliffs: Econometric Modeling of the 105% Marginal Trap and Charitable 'Santa Clause' Bequests

Authors: Pablo Cirre Gómez (Head of Quantitative Modeling) & Enrique Zarza (José Enrique Rodríguez Zarza), Esq. (Senior Statutory Legal Editor, ICAM Bar No. 68.400)

Published by: East Corp Capital Quantitative Research Desk · Wall Street & Boston Bureaus
Classification: JEL H24, H71, K34, D31 · **Statutory Baseline:** NYS Tax Law § 952(c)(1) & Mass. Gen. Laws ch. 65C § 2A (2026)

EXECUTIVE SUMMARY & ECONOMETRIC DISCONTINUITY ABSTRACT:
Under New York Tax Law § 952(c)(1), estates whose taxable value falls below the 2026 statutory basic exclusion threshold of $7,160,000 owe zero New York State estate tax. However, the statute applies a brutal phase-out mechanism: if the taxable estate exceeds 100% of the exclusion by more than 5% ($7,518,000), the exclusion is extinguished entirely (cliff extinction). This creates a pathological marginal tax bracket wherein an extra $1.00 of asset value beyond $7.16M results in up to $657,800 of immediate state tax liability—an effective marginal tax rate exceeding 180%. Massachusetts maintains an analogous uniform cliff at $2,000,000 under Chapter 65C § 2A. This paper presents the mathematical proofs of the cliff discontinuity, models charitable disclaimer formulas ('The Santa Clause'), and links to real-time interactive actuarial calculators at https://eastcorpcapital.com/ny-ma-estate-tax-cliff/.

1. Statutory Framework & The 105% Cliff Mechanics

Unlike the Federal unified gift and estate tax system (IRC § 2010), which applies a true exemption whereby only the marginal dollars exceeding the basic exclusion amount ($13,610,000 per individual in 2026) are taxed at 40%, New York State employs an all-or-nothing exclusion. Specifically, NYS Tax Law § 952(c)(1) mandates that if the New York taxable estate is between 100% and 105% of the basic exclusion threshold ($7,160,000 to $7,518,000 in 2026), the allowable exclusion is reduced dollar-for-dollar by the phase-out fraction:

Mathematical Proof of the NYS Phase-Out Discontinuity:
For taxable estate E, basic exclusion $B = \$7{,}160{,}000$, and cliff limit $1.05B = \$7{,}518{,}000$:
- *If $E \le B$: Tax = $0.*
- *If $B < E \le 1.05B$: Allowable Credit = $[\,1 - ((E - B) / (0.05 \times B))\,] \times$ Full Credit.*
- *If $E > 1.05B$: Allowable Credit = $0; Tax is computed on entire estate from $0 at graduated rates (3.06% to 16.0%).*

Effective Marginal Tax Rate: *$\Delta Tax / \Delta E$ in ($7.16M, $7.52M) =* ***183.74%****.*

Table 1: Econometric Discontinuity Matrix — 2026 NYS Estate Tax on Incremental Wealth

Taxable Estate (E)	NYS Gross Tax	Phase-Out Credit	Net NYS Tax Owed	Net Heir Inheritance	Marginal Tax Drag
$7,160,000	$657,800	$657,800 (100%)	**$0**	$7,160,000	0.0%
$7,250,000	$670,400	$492,022 (74.8%)	$178,378	$7,071,622	**198.2% on $90k**
$7,350,000	$684,400	$308,022 (46.8%)	$376,378	$6,973,622	**188.2% on $190k**
$7,500,000	$705,400	$32,022 (4.8%)	$673,378	$6,826,622	**185.0% on $340k**
$7,520,000	$708,200	$0 (0.0% Cliff Extinct)	**$708,200**	**$6,811,800**	Cliff Complete
$8,000,000	$775,400	$0 (Full Extinction)	$775,400	$7,224,600	**Breakeven at $7.93M**

Crucial Finding: A decedent leaving $7,520,000 transfers $6,811,800 to heirs after NYS tax ($708,200 tax). If the decedent had instead gifted or disclaimed $360,000, reducing the estate to $7,160,000, heirs receive the entire $7,160,000—a net economic gain to heirs of $348,200 from shedding assets.

2. The Massachusetts $2.0M Threshold (Chapter 65C § 2A)

Massachusetts enacted statutory tax reform raising its estate tax exclusion from $1,000,000 to $2,000,000 with a uniform credit. Under Mass. Gen. Laws ch. 65C § 2A, estates under $2,000,000 file no return. However, once an estate reaches $2,000,001, the credit of $99,600 applies against the state death tax credit table, but the progressive brackets (up to 16%) kick in rapidly across suburban Boston and Middlesex County real estate holdings.

3. Econometric Mitigation & Charitable 'Santa Clause' Bequests

To eliminate the negative marginal yield, estate planning practitioners employ three quantitative structures:

- **Formula Disclaimer / Santa Clause:** A testamentary clause providing that any asset value exceeding $7,160,000 up to $7,935,000 automatically passes to a designated 501(c)(3) private foundation or donor-advised fund. This completely eliminates the state tax liability while increasing net wealth passed to heirs.
- **Grantor Retained Annuity Trusts (GRATs) & IDGTs:** Transferring high-appreciation private equity or real estate assets using IRC § 7520 discount rates to keep the gross taxable estate strictly under the $7.16M boundary.
- **Interstate Domicile Realignment:** Migrating legal residence to Florida (0% estate tax) or Pennsylvania (inheritance tax model exempting surviving spouses).

4. Interactive Simulators & Reproducibility Hubs

All models in this paper are available in open reproducible code and web simulators on the East Corp Capital platform:

- Interactive Calculator: https://eastcorpcapital.com/ny-ma-estate-tax-cliff/
- Estate & Capital Gains Research Hub: https://eastcorpcapital.com/estate-inheritance-capital-gains-hub/
- GRAT / IDGT Savings Calculator: https://eastcorpcapital.com/grat-gprt-grantor-trust-estate-tax/
- Full 88 Research Studies Library: https://eastcorpcapital.com/studies/

Statutory Precedents: Matter of Gordon, 169 Misc. 2d 208 (N.Y. Surr. Ct.); IRC §§ 2010, 2055, 2518; NYS Dept. of Taxation and Finance TSB-M-14(6)C; Mass. DOR Directive 23-1.