

December 12, 2017

Tax and Estate Planning Update

Federal Estate Tax

The federal estate tax exemption for the 2018 tax year is \$5,600,000, an increase of \$110,000 over the 2017 exemption. If a decedent's taxable estate exceeds this amount, the excess will be taxed at a flat rate of 40%. For married couples the exemption can total \$11,200,000 in 2018, because the option of "portability" can be used at the first death to transfer any unused portion of the deceased spouse's exemption to the surviving spouse.

As of this Update, Congress is considering modifications of the federal estate tax – ranging from increasing the exemption to outright repeal of the tax. We will continue to monitor proposed legislation.

Connecticut Estate Tax

Significant changes have been made to the Connecticut estate tax starting in 2018. The estate tax exemption will rise from \$2,000,000 in 2017 to \$2,600,000 in 2018 and \$3,600,000 in 2019; the Connecticut exemption will match the federal estate tax exemption in 2020. Notably, Connecticut still does not offer the portability option.

If a decedent's taxable estate exceeds the exemption amount, the excess is taxed at marginal rates between 7.2% and 12%. The Connecticut estate tax is deductible for federal estate tax purposes. This deduction reduces the effective rate of the CT estate tax by 40% (but only for estates that have a federal estate tax liability). The maximum Connecticut estate tax payable on the largest estates will be reduced on January 1, 2018, from \$20,000,000 to \$15,000,000.

The Connecticut estate tax exemption is reduced by lifetime taxable gifts made after 2004. Qualified transfers to a spouse or to charity are not taxable.

Gift Tax

For 2018, the federal and Connecticut gift tax annual exclusions will increase to \$15,000 per recipient, an increase of \$1,000 from 2017. One spouse may give up to \$30,000 to each recipient if the other spouse consents to "split gifts" on a gift tax return. Gifts that exceed the annual exclusion incur no federal gift tax until cumulative excess gifts reach the federal lifetime exemption of \$5,600,000, but these gifts also require a gift tax return to be filed. The lifetime exemption for Connecticut gift tax purposes will increase as the Connecticut estate tax exemption increases.

Certain gifts avoid tax without using the annual exclusion or the lifetime exemption. Non-taxable gifts include tuition payments made directly to qualifying educational institutions and medical payments made directly to healthcare providers.

Connecticut Estate and Gift Tax Rates				
Value of Taxable Estate or Gift	Marginal Rates			
	Current Law	Bill		
		2018	2019	2020 and after
Up to \$2,000,000	None	None	None	None
\$2,000,001 to \$2,600,000	7.2%			
\$2,600,001 to \$3,600,000		7.2%		
\$3,600,001 to \$4,100,000	7.8%	7.8%	7.8%	
\$4,100,001 to \$5,100,000	8.4%	8.4%	8.4%	
\$5,100,001 to federal threshold	9%	10%	10%	10%
Federal threshold to \$6,100,000				
\$6,100,001 to \$7,100,000	9.6%	10.4%	10.4%	10.4%
\$7,100,001 to \$8,100,000	10.2%	10.8%	10.8%	10.8%
\$8,100,001 to \$9,100,000	10.8%	11.2%	11.2%	11.2%
\$9,100,001 to \$10,100,000	11.4%	11.6%	11.6%	11.6%
Over \$10,100,000	12%	12%	12%	12%

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Readers are urged not to act on this information without consultation with their counsel. If you would like to discuss how the estate tax laws affect your estate plan, or if it is time to have your documents reviewed because of changes in family circumstances, please contact us. We carefully customize estate plans to our clients' individual circumstances and personal objectives.

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