June 3, 2011

Estate Planning Update - June 2011

As you may know, several tax law changes resulted from the legislation signed into law by Governor Malloy on May 4, 2011, as part of the budget compromise. The following summarizes a few of the key changes. <p***CONNECTICUT ESTATE AND GIFT TAX LAWS*** <p***Estate and gift tax exemption reduced to $2,000,000.*** The Connecticut estate tax exemption amount has decreased from $3,500,000 to $2,000,000. The estates of decedents dying on or after January 1, 2011, that are over $2,000,000 are now subject to Connecticut estate tax. There is a parallel change to the Connecticut gift tax exemption, which was also reduced to $2,000,000, effective January 1, 2011. Connecticut residents are now limited to making lifetime gifts of up to $2,000,000 without incurring Connecticut gift tax. (However, the federal gift tax exemption remains at $5,000,000 for 2011 and 2012.) For Connecticut gift tax purposes, the aggregate amount of all gifts made on or after January 1, 2005, (the year when Connecticut originally adopted its "unified" estate and gift tax structure) "count" against the Connecticut gift tax exemption.

The estate and gift tax rates are unchanged, with a maximum tax rate of 12 percent. The rate schedule is summarized below.

Amount of Total Connecticut Taxable Transfers		Transfer Tax (add Col. C and Col. D)	
Col. A ? **Over**	**Col. B** ? **But not over**	**Col. C** ? **Tax on Col. A**	**Col. D** **Tax rate on excess over Col. A**
0	2,000,000	none	none
2,000,000	3,600,000	none	7.2%
3,600,000	4,100,000	115,200	7.8%
4,100,000	5,100,000	154,200	8.4%
5,100,000	6,100,000	238,200	9.0%
6,100,000	7,100,000	328,200	9.6%
7,100,000	8,100,000	424,200	10.2%
8,100,000	9,100,000	526,200	10.8%
9,100,000	10,100,000	634,200	11.4%
Over $10,100,000	?	748,200	12.0%

<em**What does this mean to you?** </em< span> If your documents have been updated to take into account the potential difference between state and federal estate tax exemptions (which is relevant now with the $5,000,000 federal estate tax exemption), no further changes should be needed to your documents. However, without appropriate planning, married couples may be subject to tax that could otherwise be avoided. Properly drafted estate plans and proper ownership of assets by married couples are necessary for maximum use of the available exemptions. Please contact us if you would like to discuss how these changes may affect you. If you have not updated your documents in the last few years, this may be an appropriate time for a more comprehensive review of your estate plan to ensure that it still meets your estate planning needs and objectives. In addition, if you made Connecticut taxable gifts earlier this year in an effort to capture some of the current $5,000,000 federal gift tax exemption, you should be aware that those gifts, even if made prior to the enactment of the new Connecticut tax exemption, will be subject to the lower exemption and therefore could result in higher Connecticut gift tax than you might have expected. For example, a $5,000,000 Connecticut taxable gift in 2011 for an individual with her full

Connecticut gift tax exemption will cause $229,800 in Connecticut gift tax under present law, as compared to $121,800 in tax under the law previously in effect. <em**INCREASE IN INDIVIDUAL INCOME TAX RATES**</em< span> The legislation increased the marginal income tax rates for those with taxable incomes over $100,000 for joint filers, $50,000 for single filers and married filing separately, and $80,000 for heads of household. The number of tax brackets has been increased from three to six. In addition, the highest marginal income tax rate was increased to 6.7% for those with taxable incomes over $500,000 for joint filers, $250,000 for single filers and $400,000 for heads of household. <em**SALES TAX CHANGES**</em< span> The general sales and use tax rate has been increased to 6.35%.? A higher "luxury" tax rate of 7% now applies to the full sales price of motor vehicles (costing more than $50,000), boats (costing more than $100,000), jewelry (costing more than $5,000), and clothing (costing more than $1,000).? The sales tax was extended to certain new services, including motor vehicle storage and salon services. These are some general points about the new Connecticut tax laws.