Winter 2020/2021

Estate Planning Update Winter 2020/2021 - 2020 Inflation Adjustments

Each year, certain federal gift, estate and generation-skipping transfer (GST) tax figures are subject to inflation adjustments:

- For 2021, the annual exclusion amount for gifts remains at $15,000. The annual exclusion amount for gifts made to a noncitizen spouse in 2021 increases to $159,000 (from $157,000).
- The federal gift, estate and GST tax exemption amount for gifts made in 2021 and decedents dying in 2021 increases to $11.7 million (from $11.58 million in 2020). These exemption amounts apply to U.S. citizens and those domiciled in the United States.

There are changes to exemptions in two of our footprint states as well:

- The Connecticut gift and estate tax exemption for gifts made in 2021 and decedents dying in 2021 also increases, to $7.1 million (from $5.1 million).
- The New York state estate tax exemption for decedents dying in 2020 increases with inflation each year. As this newsletter goes to press, the 2021 exemption has not been announced—it was $5.85 million in 2020.

Note also some changes to retirement plan contribution limits:

- The contribution limit for 401(k) and similar plans remains unchanged at $19,500. The limit for catch-up contributions to such plans for people over age 50 also remains unchanged at $6,500.
- The limit on annual contributions to IRAs remains unchanged at $6,000, with the IRA catch-up contribution limit remaining $1,000.
- For further information on retirement plan contribution limits, see our alert, "IRS Publishes 2020 Pension Plan Limitations."

An individual who gives up U.S. citizenship or long-term residence status may be subject to a mark-to-market tax on the deemed sale of all assets and to other adverse tax consequences, if the individual's net worth is more than $2 million or if average annual income tax liability is above certain thresholds. A certain amount of gain is excluded from the mark-to-market tax. Note these changes:

- The income tax threshold for triggering covered expatriate status increases to $172,000 in 2021 (from $171,000).
- The excluded gain under the mark-to-market tax increases to $744,000 (from $737,000).

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