

Winter 2017

Tax and Estate Planning Update

Federal Estate Tax

The federal estate tax exemption for the 2017 tax year is \$5,490,000, an increase of \$40,000 over last year's 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 \$10,980,000 in 2017, 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.

Connecticut Estate Tax

There are no changes to the Connecticut estate tax exemption, which is \$2,000,000. If a decedent's taxable estate exceeds \$2,000,000, the excess is taxed at marginal rates between 7.2% and 12%. 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. Connecticut does not offer the portability option. The Connecticut estate tax is deductible for federal estate tax purposes.

Gift Tax

For 2017, the federal and Connecticut gift tax annual exclusions remain unchanged at \$14,000 per recipient. One spouse may give up to \$28,000 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 \$5,490,000, but these gifts also require a gift tax return to be filed. The lifetime exemption for Connecticut gift tax purposes is \$2,000,000 for gifts made after 2004.

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; books, supplies and equipment, including computer technology, *if required* to be purchased by the qualifying educational institution; and medical payments made directly to healthcare providers.

Probate Court Fees on Decedent's Estates Capped at \$40,000

Attorneys, clients and probate court officials have reacted negatively to two recent legislative changes to probate court fees on decedent's estates. The probate court fee is based on the size of the taxable estate, which includes both assets that go through probate and assets that pass directly to beneficiaries without probate. Prior to these changes, the maximum probate court fee was \$12,500 and the maximum rate of fee was .25%. The first legislative change removed the cap and increased the top rate to .5% on amounts over \$2,000,000. This meant that large estates paid enormous fees. After a very negative reaction from the public, the legislature last year capped the maximum probate court fee at \$40,000, but kept the .5% top rate. We believe that the new cap and the top rate are still too high, and we are working with our legislators to try to lower them.

Fiduciary Services

Thank you to the growing number of our clients who use our Fiduciary Services for a successful 2016. We appreciate the opportunity to assist with your cash flow, charitable giving, retirement planning, and other management needs, and we are looking forward to the New Year. We also thank Crawford Investment Counsel and our other investment advisors for their diligent work on behalf of our clients throughout the year.

On a bittersweet note, we offer heartfelt gratitude for the 43 years that we have had the privilege to work with Sue Bocchini. Sue retired as a stockholder of the firm effective December 31. We are forever indebted to her for her mentoring, patience, draftsmanship and counsel. Sue, of course, was back at her desk by 9:00 a.m. on Tuesday, January 3....

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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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