

Estate Planning & Settlement Newsletter

TAX AND ESTATE PLANNING UPDATE

JANUARY 2024

2024 FEDERAL, CONNECTICUT AND MASSACHUSETTS ESTATE TAX AND GIFT TAX

The federal estate tax exemption for 2024 is \$13,610,000, an increase of \$690,000 from 2023. 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 \$27,220,000 in 2024 because the surviving spouse can file a federal estate tax return to elect "portability" to transfer any unused portion of the deceased spouse's exemption to the surviving spouse.

The Connecticut estate tax exemption is also \$13,610,000, an increase of \$690,000 from 2023. The Connecticut exemption will continue to match the federal estate tax exemption for the foreseeable future. Notably, Connecticut still does not offer the portability election. If a decedent's taxable estate exceeds the exemption amount, the excess is taxed at a flat rate of 12%. The Connecticut estate tax is deductible for federal estate tax purposes, which reduces the effective rate of the Connecticut estate tax by 40%.

The Massachusetts estate tax exemption increased from \$1 million to \$2 million. This increase is retroactive, applying to estates of decedents dying on or after January 1, 2023. Unlike the federal and Connecticut exemption, the Massachusetts exemption is not indexed for inflation and will remain fixed unless modified by further legislation.

The federal and Connecticut gift tax annual exclusion for 2024 is \$18,000, an increase of \$1,000 from 2023. Each person may give up to \$18,000 per recipient, and, for married couples, one spouse may give up to \$36,000 per recipient if the spouse files a gift tax return and the other spouse consents to "split gifts" on that gift tax return. 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. Gifts exceeding the annual exclusion incur no federal or Connecticut gift tax until cumulative excess gifts reach the lifetime exemption of \$13,610,000, but these gifts must be reported on a gift tax return.

Federal tax legislation enacted in 2017 temporarily increased the estate tax exemption until 2026. Unless Congress extends the law or makes it permanent, the exemption will be reduced to \$5 million (indexed for inflation) on January 1, 2026. The IRS has confirmed that for those individuals who made gifts based on the higher exemptions prior to 2026, it will not impose gift or estate tax as a result of the reduction of the exemption. Clients who are considering making gifts to take advantage of the increased exemption before 2026 should consider the following: (1) if the increased exemption is extended, current gifts may be unnecessary, but if the exemption is reduced, current gifts may be advantageous; (2) the exemption is used from the bottom up; therefore, in order to take advantage of exemption that may be reduced, total gifts must exceed the exemption scheduled to be in effect in 2026; (3) under current law, the reduced exemption will rise with inflation each year and could eventually exceed the exemption available in 2025; and (4) clients who fully use the exemption in 2024 should consider additional gifts next year to absorb the 2025 inflation adjustment. Please contact us if you would like to discuss making gifts as part of your estate planning this year.

THE SECURE ACT 2.0

On December 29, 2022, President Biden signed into law the SECURE Act 2.0 (the "Act"), which made several changes affecting retirement accounts.

1. AGE FOR REQUIRED MINIMUM DISTRIBUTIONS

Effective January 1, 2023, the age at which an account holder must begin taking annual required minimum distributions ("RMDs") increased from age 72 to age 73 for tax-deferred accounts, including traditional IRAs, traditional 401(k) plans, 403(b) plans, and 457(b)

plans. This will increase again to age 75 in 2033. Account holders who turned 72 prior to January 1, 2023, are required to continue taking RMDs based on the prior rule.

2. REQUIRED MINIMUM DISTRIBUTIONS FOR INHERITED RETIREMENT ACCOUNTS UNDER THE 10-YEAR RULE STILL UNSETTLED

As enacted in the SECURE Act 1.0, most retirement accounts inherited by someone other than a surviving spouse must be fully distributed within 10 years following the original owner's death. The IRS issued proposed regulations stating that if the original owner of a retirement account died after 2019 and was required to take RMDs, the beneficiary must take RMDs based on the original owner's life expectancy in each of the first nine years in addition to withdrawing the remaining balance by the tenth anniversary of the original owner's death. The IRS has extended RMD relief as it continues to work on these proposed regulations, which it now intends to finalize in 2024. As such, a non-spouse beneficiary of an IRA whose owner died after 2019 is not required to take an RMD for 2021, 2022, or 2023.

3. PENALTIES FOR FAILURE TO TAKE REQUIRED MINIMUM DISTRIBUTIONS

The Act reduces the penalty for failing to take an RMD from 50% to 25% of the difference between the amount actually distributed and the amount that should have been distributed. The penalty can be further reduced to 10% if the account owner makes up for the missed RMD generally within two years.

4. QUALIFIED CHARITABLE DISTRIBUTIONS

Effective January 1, 2024, individuals aged 70 1/2 or older may make an annual qualified charitable distribution ("QCD") of up to \$105,000 to one or more charities directly from a taxable IRA. In addition, a one-time distribution of up to \$53,000 may be made as part of a QCD directly from an IRA to a charitable remainder trust or a charitable annuity. QCD limits are now adjusted for inflation and count towards an annual RMD, if applicable.

5. SECTION 529 PLANS

Section 529 Plans ("529 accounts") are a popular savings vehicle for education. Effective January 1, 2024, the Act permits a rollover from a 529 account to a Roth IRA. This change may be an attractive avenue for funding a Roth IRA for the beneficiary of an overfunded 529 account. In order to qualify for the rollover: (1) the 529 account must have been open for at least 15 years; (2) the Roth IRA must be titled in the name of the beneficiary of the 529 account; and (3) the beneficiary must have a minimum of earned income for that year equal to the amount of the rollover. Additions to the 529 account made within 5 years are ineligible for the rollover. The rollover is subject to the annual limit for Roth IRA contributions, which for 2024 is \$7,000. The maximum lifetime rollover is \$35,000.

The Reid and Riege Individual Clients Group Newsletter is a publication of Reid and Riege, P.C.

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.

The foregoing has been prepared for the general information of clients and friends of Reid and Riege, P.C., and is intended to be for discussion purposes only. It is not intended and should not be construed to provide any legal advice with respect to any specific matter and should not be acted upon without engaging professional counsel. It is not intended to create, and the receipt does not constitute, an attorney-client relationship between sender and receiver.

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