

Winter 2019

Tax and Estate Planning Update

2019 Federal and Connecticut Estate Tax and Gift Tax

The federal estate tax exemption is \$11,400,000, an increase of \$220,000 from 2018. If a decedent's taxable estate exceeds this amount, the excess will be taxed at a flat rate of 40%. The exemption for married couples can total \$22,800,000, 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.

The Connecticut estate tax exemption is \$3,600,000 and is scheduled to rise to \$5,100,000 in 2020, \$7,100,000 in 2021, \$9,100,000 in 2022, and thereafter to match the federal estate tax exemption. 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 7.8% and 12%. Estates with federal estate tax liability can deduct Connecticut estate tax, which reduces the effective rate of the Connecticut estate tax by 40%.

The federal and Connecticut gift tax annual exclusions remain at \$15,000. 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 exceeding the annual exclusion incur no federal gift tax until cumulative excess gifts reach the federal lifetime exemption of \$11,400,000, but these gifts also must be recorded on a gift tax return. 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.

Simplifying Some Estate Plans

Married couples with combined estates under the federal and state exemptions may be able to simplify their plans as some estate tax reduction tools may no longer be necessary. Estate plans that designate assets in trust to shelter the estate tax exemption from the surviving spouse's estate do not get a step-up in basis at the surviving spouse's death. As a result, these assets could be subject to considerable capital gains tax on the appreciation between the first spouse's death and the death of the survivor. Married couples should consider the potential income tax savings that could be available, and we recommend couples contact their attorney to discuss the specifics of their plan.

Volatility: a tendency to change quickly and unpredictably.

The Merriam-Webster definition of volatility quoted above is a succinct summation of what investors have experienced from the investment markets for the past year. In 2018 the market had one of the strongest January's on record, followed by a dismal February that took away all the gains and then some. The rest of the year followed suit, culminating in a dramatic Christmas Eve downdraft and an (almost) equally dramatic recovery in the last week of the year. The rallies could not outweigh the downdrafts however, and investment markets ended in negative territory for the first time in 10 years. Thus far in 2019, the market was down 660 points on January 3rd

and back up more than 750 points on January 4th. It is anybody's guess as to where it will be when this newsletter reaches your hands. Index investors live with this reality every day; by definition they get the return of the index on which they have chosen to place their bet.

Part of estate planning is being a good steward of the assets that you have accumulated for your own spending needs and for the benefit of your family, charitable or other interests. When we serve as trustees for clients, we select investment advisors whose defensive investment approach will help to insulate our clients as difficult markets play out. For instance, they build portfolios that hold companies that pay consistent and rising dividends and have more consistent earnings patterns. Most of our client portfolios also have an allocation to high quality bonds.

David Sullivan, CTFA, manages our trust and wealth services. He helps clients with a range of wealth management concerns including cash flow needs, and family and charitable gifting. If you would like to learn more about how we assist our clients with trust and wealth management services, please contact David at (860) 240-1022 or by email at dsullivan@rrlawpc.com.

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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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