

Client Alert

TRUSTS AND ESTATES DEPARTMENT | OCTOBER 2009

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Connecticut Legislative Update *Changes to Estate, Gift and Income Taxes* *Probate Court Reform*

In 2009, the Connecticut legislature passed laws that change the Connecticut gift, estate and income tax regimes in significant ways. In addition, the General Assembly and the Governor addressed reform of the state's Probate Court system.

CONNECTICUT GIFT AND ESTATE TAX

As of January 1, 2010, Connecticut estate and gift tax will apply only to estates and cumulative gifts valued at over \$3,500,000. The marginal tax rates on estates and gifts in excess of \$3,500,000 will also be reduced.

The legislation also eliminates an anomaly in the prior Connecticut estate and gift tax law that planners referred to as the "cliff."

What is the "cliff"? Current Connecticut law exempts from the gift tax the first \$2,000,000 of taxable gifts that do not qualify for the annual exclusion from gift tax. The Connecticut estate tax exemption is presently \$2,000,000, reduced by any gift tax exemption used during one's lifetime. However, if an individual's estate and cumulative taxable gifts exceed \$2,000,000, the *full value* of the estate and gifts is taxable. For example, an estate of \$2,000,000 would generate no tax but an estate of \$2,000,001 generates a tax liability of \$101,700. This tax has been referred to as a "cliff" since \$1 of additional value causes a tax of \$101,700.

As demonstrated in the chart below, the new law eliminates the "cliff" and taxes only estates and gifts over the \$3,500,000 threshold. The chart also shows that the new law decreases the tax rate by 25 percent.

The new Connecticut estate and gift tax rates and amounts are:

VALUE OF GIFT OR ESTATE		CURRENT TAX (Add columns C+D)		PROPOSED TAX (Add columns E+F)	
A	B	C	D	E	F
Over	But not over	Tax on Column A	Tax rate on excess over Column A	Tax on Column A	Tax rate on excess over Column A
0	\$2,000,000	No tax	No tax	No tax	No tax
\$2,000,000	2,100,000	5.085% of the total over 0		No tax	No tax
2,100,000	2,600,000	\$106,800	8.0%	No tax	No tax
2,600,000	3,100,000	146,800	8.8%	No tax	No tax
3,100,000	3,500,000	190,800	9.6%	No tax	No tax
3,500,000	3,600,000	229,200	9.6%	0	7.2%
3,600,000	4,100,000	238,800	10.4%	7,200	7.8%
4,100,000	5,100,000	290,800	11.2%	46,200	8.4%
5,100,000	6,100,000	402,800	12.0%	130,200	9.0%
6,100,000	7,100,000	522,800	12.8%	220,200	9.6%
7,100,000	8,100,000	650,800	13.6%	316,700	10.2%
8,100,000	9,100,000	786,800	14.4%	418,200	10.8%
9,100,000	10,100,000	930,800	15.2%	526,200	11.4%
over \$10,100,000		1,082,800	16.0%	640,200	12.0%

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*Connecticut Legislative Update: Changes to Estate, Gift and Income Taxes.
Probate Court Reform.* CONTINUED

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In addition to the changes in Connecticut estate and gift tax law described above, many practitioners believe that change will also occur soon in connection with the federal estate and gift tax system. Under current federal law, the first \$1,000,000 of taxable gifts are exempt from gift tax. The federal estate tax exemption currently is \$3,500,000, reduced by any gift tax exemption used during one's lifetime. The estate tax is scheduled to be repealed in its entirety in 2010. However, many commentators believe that Congress will pass legislation to maintain the current \$3,500,000 exemption and 45% tax rate into 2010, with more permanent reform occurring in 2010. The gift tax will remain in place during 2010 and subsequent years. Accordingly, there is a high likelihood that in 2010, both the Connecticut and Federal estate tax exemptions will be equal to \$3,500,000.

CONNECTICUT INCOME TAX

Effective January 1, 2009, the top marginal income tax rate was increased to 6.5%. This rate applies to individuals whose taxable income exceeds \$500,000 and to married individuals filing jointly whose income exceeds \$1,000,000. For example, a single person will pay \$24,800 on the first \$500,000 of taxable income and 6.5% on the balance of his or her taxable income.

PROBATE COURT REFORM

During the 2009 legislative session, the Connecticut legislature passed an Act Concerning Probate Court Reforms and Establishing a Probate Court Redistricting Commission. The General Assembly also passed legislation reducing the number of Connecticut Probate Courts from 117 to 54. As a result, many of the smaller Probate Court Districts will be consolidated into multiple-town Districts. The re-districting plan will be implemented before the election of Probate Court Judges in November of 2010.

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