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Connecticut Budget Set to Impact the State's Highest Earners

Governor Dannel Malloy recently signed a budget package, retroactive to January 1st of this year, which increases the income tax rate for the state's highest earners and makes some notable changes to estate taxes and probate court fees.

With regard to income taxes, the bill eliminates the highest marginal tax rate of 6.70% and replaces it with two new marginal tax rates—6.90% and 6.99%—in effect raising the highest marginal tax rate from 6.70% to 6.99%. Specifically, the bill provides:

- Married couples filing jointly with income between \$500,000 and \$1,000,000 will see their marginal income tax rate increase from 6.70% to 6.90%
- Married couples filing jointly with income of more than \$1,000,000 will see their marginal income tax rate increase from 6.70% to 6.99%
- Single taxpayers, along with married individuals filing separately, with income between \$250,000 and \$500,000 will see their marginal income tax rate increase from 6.70% to 6.90%
- Single taxpayers, along with married individuals filing separately, with income of more than \$500,000 will see their

marginal income tax rate increase from 6.70% to 6.99%

- Persons filing as head of household with income between \$400,000 and \$800,000 will see their marginal income tax rate increase from 6.70% to 6.90%
- Persons filing as head of household with income of more than \$800,000 will see their marginal income tax rate increase from 6.70% to 6.99%
- The flat income tax rate for trusts and estates will increase from 6.70% to 6.99%

In addition to the income tax changes, the budget includes a provision capping estate taxes. Starting January 1, 2016, the maximum Connecticut estate tax due cannot exceed \$20,000,000. Note, however, that the decedent's estate would have to be valued at approximately \$170,000,000 to reach this cap.

Finally, the cap on the total probate court fee for the settlement of a decedent's estate, which was previously set at \$12,500, has been removed. Retroactive to January 1, 2015, any estate with a basis for fees in excess of \$3,377,000 will be affected. However, any portion of that basis that is attributable to property passing to a surviving spouse will be reduced by 50%. To

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demonstrate the impact of the cap's removal, the following is an illustrative list of fees that can be assessed:

- An estate with a basis for fees of \$5,000,000 will have a total fee of \$20,615.
- An estate with a basis for fees of \$10,000,000 will have a total fee of \$45,615.
- An estate with a basis for fees of \$20,000,000 will have a total fee of \$95,615.

If you have any questions about how these new provisions, or any other aspect of the budget, will impact you, please contact us.

This publication is a summary of legal principles. Nothing in this article constitutes legal advice, which can only be obtained as a result of a personal consultation with an attorney. The information published here is believed accurate at the time of publication, but is subject to change and does not purport to be a complete statement of all relevant issues.