

Significant Changes to Connecticut Estate, Gift and Succession Taxes Enacted

WIGGIN AND DANA

Counsellors at Law

Trusts & Estates Department

Leonard Leader
203.363.7602
lleader@wiggins.com

John W. Barnett
203.498.4303
jbarnett@wiggins.com

Patricia R. Beauregard
203.498.4423
pbeauregard@wiggins.com

Robert W. Benjamin
212.551.2602
rbenjamin@wiggins.com

Karen L. Clute
203.498.4349
kclute@wiggins.com

Mark E. Haranzo
203.363.7640
mharanzo@wiggins.com

Helen C. Heintz
203.363.7607
hheintz@wiggins.com

Arsineh Kazazian
212.551.2632
akazazian@wiggins.com

David W. Kesner
203.498.4406
dkesner@wiggins.com

Charles C. Kingsley
203.498.4307
ckingsley@wiggins.com

Robert M. McAnerney
203.363.7608
rmcanerney@wiggins.com

Connecticut Public Act 05-251, signed by Governor Rell on June 30, 2005, makes substantial changes to Connecticut's estate, gift and succession taxes. The changes are generally effective retroactive to January 1, 2005.

- **Individuals will now have a \$2 million exemption from the Connecticut estate tax.** The federal estate tax exemption is currently \$1.5 million, but it is scheduled to increase to \$2 million as of January 1, 2006. The Connecticut estate tax rates on taxable estates range from 5.085% to 16% (on amounts over \$10 million). Transfers to spouses which qualify for the marital deduction continue to be exempt from the Connecticut estate tax.
- **The Connecticut gift tax will now be integrated with the Connecticut estate tax.** This means that up to \$2 million of cumulative lifetime taxable gifts will not trigger a current tax liability. The new law applies only to gifts made after January 1, 2005. Use of the \$2 million exemption on lifetime gifts will reduce, dollar-for-dollar, the amount of the exemption available for estate transfers. Donors should also beware that the federal lifetime gift tax exemption is currently only \$1 million. Nonetheless, donors who decided against making substantial lifetime gifts because under prior law a Connecticut gift tax would have been due may want to reconsider those decisions in light of the new law.
- **The Connecticut succession tax is entirely repealed effective January 1, 2005.** This is especially welcome news for those who wish to leave assets to collateral relatives, domestic partners and friends. In prior years the succession tax had been phased out for transfers to descendants and ancestors. Transfers to a spouse have long been exempt from the succession tax.

Although the changes to the Connecticut estate, gift and succession taxes mean that many estates will no longer be subject to a state death tax, the changes also highlight the need for continued careful planning in this area. For example, the new estate tax rate table results in a cliff in the rates: a Connecticut taxable estate valued at \$2 million or less would generate a tax bill of \$0, but a Connecticut taxable estate of \$2,000,001 - just one dollar over the \$2 million threshold - would generate a tax bill of \$101,600.

Depending on your circumstances, the sweeping changes to the Connecticut estate, gift and succession taxes may create opportunities for significant tax savings through creative estate planning. Attorneys in our Trusts & Estates Department would be happy to meet with you and review your current estate plan in light of these important changes in Connecticut law. Our names and telephone numbers are in the column to the left.

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