

Winter 2016

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## Tax and Estate Planning Update

### Charitable Giving

On December 18, 2015, President Obama signed legislation making permanent the ability for certain donors to make limited transfers from their Individual Retirement Accounts (“IRAs”) directly to eligible charities without incurring taxable income. IRA owners who have reached age 70 ½ may now transfer up to \$100,000 per year from their IRAs to eligible charities.

A direct transfer avoids any income tax which the IRA owner would have incurred had the owner first withdrawn funds from the IRA and then made the charitable gift. It is essential that the gift be made by the IRA custodian directly to the charitable organization. A direct transfer to charity will count towards satisfying the IRA owner’s required minimum distribution for the year of the gift.

This option is advantageous for donors who do not itemize deductions or who are unable to deduct the full amount of their charitable gifts. The law is retroactive to January 1, 2015, for those who made direct transfers to charities from their IRAs in 2015 before the enactment date.

### Federal Estate Tax

The federal estate tax exemption for the 2016 tax year is \$5,450,000, an increase of \$20,000 over last year’s exemption. If a decedent’s taxable estate (assets owned at death plus lifetime taxable gifts) exceeds this amount, the excess will be taxed at a flat rate of 40%. For married couples the exemption can total \$10,900,000 in 2016, 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.

### Connecticut Estate Tax

There are no changes to the Connecticut estate tax exemption, which is \$2,000,000. If a decedent’s taxable estate exceeds \$2,000,000, the excess is taxed at marginal rates between 7.2% and 12%. The Connecticut estate tax exemption is reduced by lifetime taxable gifts made after 2004. Qualified transfers to a spouse or to charity are not taxable. Connecticut does not offer the portability option. Note: the Connecticut estate tax is deductible for federal estate tax purposes.

### Gift Tax

For 2016, the federal and Connecticut gift tax annual exclusions remain unchanged at \$14,000 per recipient. One spouse may give up to \$28,000 to each recipient if the other spouse consents to “split gifts” on a gift tax return. Gifts that exceed the annual exclusion incur no federal gift tax until cumulative excess gifts reach the federal lifetime exemption of \$5,450,000, but these gifts also require a gift tax return to be filed. The lifetime exemption

for Connecticut gift tax purposes is \$2,000,000 for gifts made after 2004.

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; books, supplies and equipment, including computer technology, *if required* to be purchased by the qualifying educational institution; and medical payments made directly to healthcare providers.

### **Probate Court Fees**

Changes were made to the probate court fee structure last year. At this point it appears that both the legislature and the Governor's office are working on a revised schedule, but it is too early to predict the outcome.

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We carefully customize estate plans to our clients' individual circumstances and personal objectives. 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.

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