

Estate Planning & Settlement Newsletter

TAX AND ESTATE PLANNING UPDATE

JANUARY 2023

2023 FEDERAL AND CONNECTICUT ESTATE TAX AND GIFT TAX

The federal estate tax exemption for 2023 is \$12,920,000, an increase of \$860,000 from 2022. If a decedent's taxable estate exceeds this amount, the excess will be taxed at a flat rate of 40%. For married couples, the exemption can total \$25,840,000 in 2023. The surviving spouse can file a federal estate tax return to elect "portability" to transfer any unused portion of the deceased spouse's exemption to the surviving spouse.

The Connecticut estate tax exemption for 2023 is also \$12,920,000, an increase of \$3,820,000 from 2022. The Connecticut exemption will continue to match the federal estate tax exemption for the foreseeable future. Notably, Connecticut still does not offer the portability election. If a decedent's taxable estate exceeds the exemption amount, the excess is taxed at a flat rate of 12%. The Connecticut estate tax is deductible for federal estate tax purposes, which reduces the effective rate of the Connecticut estate tax by 40%.

The federal and Connecticut gift tax annual exclusions have increased from \$16,000 to \$17,000 per recipient. For married couples, one spouse may give up to \$34,000 to each recipient if he or she files a gift tax return and if the other spouse consents to "split gifts" on that gift tax return. 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.

Gifts exceeding the annual exclusion incur no federal or Connecticut gift tax until cumulative excess gifts reach the lifetime exemption of \$12,920,000, but these gifts must be reported on a gift tax return. For clients considering substantial gifts, the matching lifetime exemptions offer an opportunity to use more of the federal exemption than was possible in prior years without paying a Connecticut gift tax. With the federal exemption scheduled to decrease in 2026, it could be advantageous to make these gifts within the next several years while the exemptions remain high. We anticipate that the federal and Connecticut estate and gift tax exemption could decrease to around \$6,000,000 in 2026. Please contact us if you would like to discuss making gifts as part of your estate planning this year.

UPDATE REGARDING REQUIRED MINIMUM DISTRIBUTIONS FOR CERTAIN INHERITED RETIREMENT ACCOUNTS

In our November 2022 newsletter, we addressed the topic of when required minimum distributions (“RMDs”) are required for inherited retirement accounts that are subject to the 10-year rule. As the paper copy of our newsletter went to print, the IRS issued a notice indicating that it does not intend to finalize the proposed regulations until 2023 at the earliest. The notice also provided that the IRS will not impose the 50% excise tax for failure to take RMDs for these accounts in 2021 and 2022. If you inherited a retirement account after 2019 from someone other than your spouse and the former account owner was taking RMDs, we still recommend that you consult with your attorney, accountant, financial advisor, or account custodian to determine when and how you should take distributions from the inherited retirement account.

THE SECURE ACT 2.0

At the end of 2022, Congress passed a spending bill that included the SECURE Act 2.0 which makes changes to the retirement plan rules. The most notable change is to increase the age at which an account holder must begin taking annual required minimum distributions (“RMDs”) from tax deferred accounts, including traditional IRAs, 401(k) plans, 401(b) plans, and 457(b) plans, from age 72 to age 73, starting in 2023. We will address some of the other changes under the new legislation in a future newsletter.

IN MEMORIAM

We remember and honor our colleague, Frederick “Fred” J. Mullen, Jr., who passed away on November 10, 2022. Fred spent his 45-year legal career at Reid and Riege, helping countless clients with their estate planning and settlement needs. We are grateful to have had the privilege to work with Fred for so many years.

OUR TEAM

We are pleased to announce that Katherine Mulry was named a Stockholder of the firm, effective January 1, 2023.

The Reid and Riege Estate Planning & Settlement Newsletter is a publication of Reid and Riege, P.C. The Newsletter is designed to provide clients and others with general information on recent developments that may be of interest or helpful to them. It is intended to be for discussion purposes only, and it is not intended and should not be construed to provide any legal advice with respect to any specific matter. Readers are urged not to act on this information without consultation with their counsel. This publication is not intended to create, and the receipt of it does not create, an attorney-client relationship between sender and receiver.

If you would like to discuss how these topics impact you, or if it is time to have your documents reviewed, please contact us. We carefully customize estate plans to our clients’ individual circumstances and personal objectives.

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