

Personal Planning Letter

November

2005

Connecticut Estate, Gift & Succession Taxes

The Connecticut General Assembly overhauled the Connecticut estate, gift and succession taxes during the 2005 legislative session. These changes were, in large part, a result of modifications to the federal estate tax and the resulting decrease in the revenue states, including Connecticut, generate from their own transfer taxes. The legislation recently passed by the General Assembly eliminates the Connecticut succession tax and modifies the Connecticut estate and gift taxes by creating a uniform tax on transfers that is similar to the unified system that existed previously for federal estate and gift taxes.

- **Connecticut Estate Tax.** The legislation recently passed by the Connecticut General Assembly reinstates the Connecticut estate tax with a \$2 million exemption. It imposes a tax on Connecticut residents for transfers whether by gift during life (see Connecticut gift tax below) or at death that exceed a combined \$2 million. Therefore, Connecticut taxable gifts (made after January 1, 2005) are added back into the gross estate at death for Connecticut estate tax purposes.

The legislation, however, has a particularly harsh impact on those estates just slightly in excess of \$2 million. A Connecticut taxable estate of \$2 million has no Connecticut estate tax liability. However, a taxable estate with only one dollar of additional assets (\$2,000,001) does not pay tax on that dollar alone, as under current law, but instead, must pay a Connecticut estate tax of approximately \$101,700 because the entire taxable amount is subject to the Connecticut estate tax.

- **Connecticut Gift Tax.** Under prior law, Connecticut imposed a gift tax on taxable gifts in excess of \$25,000 per year (over and above the permit-

ted \$11,000 annual exclusion per beneficiary). The \$25,000 Connecticut gift tax exemption was scheduled to increase in \$25,000 increments each year until 2009 when there would have been a \$1,000,000 exemption for Connecticut gift tax.

As part of Connecticut's new unified transfer tax system, the exemption for taxable gifts made during life is \$2 million as of January 1, 2005. As under prior law, taxable gifts are those in excess of the annual exclusion amount. The new Connecticut gift tax rates are identical to those of the Connecticut estate tax and contain the same "cliff" in the rates. As discussed previously, taxable gifts made after January 1, 2005 will be included in the gross estate at death for Connecticut estate tax purposes.

- **Connecticut Succession Tax.** The Connecticut succession tax for all classes is eliminated for estates of decedents dying after December 31, 2004. Prior to this legislation, Classes A (spouse) and Class AA (parents, children, grandchildren and great-grandchildren) beneficiaries were exempt from Connecticut succession tax. The succession tax applicable to Class B beneficiaries (siblings, nieces and nephews, etc.) was scheduled to be eliminated in 2006 and in 2008 for Class C beneficiaries (more remote relatives and unrelated beneficiaries).

Federal Estate Tax Legislation Status

Recently, there has been much press attention and speculating about the status of the federal estate tax. We too have heard rumors of a higher unified credit, lower rates, and even permanent repeal. To date, however, the law remains today as it has been since 2001 with increasing unified credit amounts and repeal of the estate tax for 2010 only. We will alert you of any changes to the current estate tax law as they occur.

Living Wills

National attention recently focused on the case of Terry Schiavo and the battle between her parents and her husband regarding the removal of Ms. Schiavo's life support. The case emphasizes the need to express your wishes regarding these and other end of life issues to family, friends and medical caregivers. The best way to make those wishes known is to execute a living will and designate a health care agent to make decisions such as the removal of a feeding tube if you are unable. This is an opportunity to execute health care instructions or review your existing instructions to ensure that they still reflect your wishes.

Holland, Kaufmann & Bartels is now Shipman & Goodwin's Greenwich Office

Shipman & Goodwin LLP is pleased to announce that the attorneys of Holland, Kaufmann & Bartels LLC have joined the firm and the former Holland, Kaufmann & Bartels office has become the Greenwich office of Shipman & Goodwin. The addition of all attorneys and staff of Holland, Kaufmann & Bartels will expand Shipman & Goodwin's presence in Greenwich, especially its Trusts & Estates practice.

We are saddened, however, by the loss of Alexander J. Holland, one of the founding partners of Holland, Kaufmann & Bartels, who passed away recently. Mr. Holland had a long and distinguished career in the trusts and estates field and will be missed by both his clients and his colleagues.

The Holland, Kaufmann & Bartels attorneys who have joined Shipman & Goodwin are Charles B. Kaufmann, III, Philip H. Bartels, Jean Mills Aranha, Lori E. Romano and John C. Fusco. Jean Mills Aranha and Lori E. Romano practice primarily in the field of trusts and estates law and bring a wealth of experience in that area to Shipman & Goodwin. Shipman & Goodwin's Greenwich office is located at 289 Greenwich Avenue.

Hartford Office

After ten years in the Phoenix Building on Constitution Plaza, Shipman & Goodwin moved its Hartford offices last year across Constitution Plaza to One Constitution Plaza. The firm now occupies ten floors of that building which were renovated to meet the needs of a modern law firm. Directions to the new office are available on our website www.shipmangoodwin.com. We look forward to serving our clients in our new location.

Trusts & Estates Department

The attorneys in the Shipman & Goodwin trust & estate practice group speak to a variety of organizations on prac-

tice-related topics. Recently, Lyn Gammill Walker spoke to Greenwich Country Day School regarding planned giving. Bryon Harmon and Danielle Ferrucci presented a seminar on asset protection planning to the Bristol Medical Society. Danielle Ferrucci recently also participated on a panel regarding planning for end-of-life issues to members and clients of the Visiting Nurses Association of Connecticut.

Katrina Tax Relief Legislation

On September 21, Congress passed the Katrina Emergency Tax Relief Act of 2005. Although there have been efforts to change federal tax law so that individuals may make a "tax free rollover" of their IRA's during lifetime directly to charity, that legislation was not included in the Act. However, there is one provision of particular interest to those donors whose charitable contributions this year are significant relative to their income. The Act allows individuals to fully deduct qualified contributions to charitable organizations for any purpose (not limited to Hurricane Katrina) during the limited period beginning August 28, 2005 through December 31, 2005. The usual deduction limitations – the 50% charitable deduction limitation and the 3% phase-out for itemized deductions applicable to high income (over \$146,000) individuals – will not apply. The contributions must be of cash and must be made to a public charity (not, for example, a private foundation, supporting organization, donor-advised fund or charitable remainder trust.)



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The **PERSONAL PLANNING LETTER** is published by Shipman & Goodwin's Trusts and Estates Department with the cooperation and assistance of the firm's Real Estate, Business and Tax Departments. The members of the Trust and Estate Department include Jean Mills Aranha, Stuyvesant K. Bearn, James T. Betts, Coleman H. Casey, Danielle P. Ferrucci, Stephen K. Gellman, Bryon Harmon, Charles B. Kaufmann, III, Lori E. Romano, Janet S. Stulting, and Lyn Gammill Walker.

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