

TRUSTS AND ESTATES

A Shipman & Goodwin LLP® Newsletter

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2024 Estate, Gift and GST Tax Changes

The Internal Revenue Service (“IRS”) has announced the inflation-adjusted figures for estate, gift, and generation-skipping transfer (“GST”) tax exemptions for 2024.

- The annual gift tax exclusion amount (i.e., the amount you can give each year to someone free of gift tax and without using a portion of your lifetime exemption) increases from \$17,000 to \$18,000 (or \$36,000 for a married couple).
- The federal lifetime gift and estate tax exemption amount (i.e., the total amount you can give away during your life or at death free of gift or estate tax) increases by \$690,000 from \$12.92 million to \$13.61 million. This means that a married couple could transfer a combined total of \$27.22 million without owing any federal estate tax. The top federal gift and estate tax rate remains 40%.
- The federal GST exemption amount similarly increases to \$13.61 million. The GST tax is the tax on transfers to grandchildren or more remote descendants or to unrelated individuals who are more than 37 ½ years younger than you. The GST tax rate remains a flat 40%. Unlike the federal estate tax exemption, any GST tax exemption unused at one spouse’s death cannot be used by the surviving spouse. In other words, you must “use it or lose it.”
- The Connecticut lifetime gift and estate tax exemption amount will also increase from \$12.92 million to \$13.61 million. The Connecticut gift and estate tax rate remains at a flat 12%. Note, a surviving spouse cannot take advantage of any Connecticut unused exemption of the first-to-die spouse.

“The annual gift tax exclusion amount is increased from \$17,000 to \$18,000 (or \$36,000 for a married couple)”

As a reminder, the federal lifetime gift and estate tax exemption was increased by the 2017 Tax Cuts & Jobs Act and, absent any change in the law, the exemption will decrease by about one-half on January 1, 2026. Whether Congress will let the exemption decrease in 2026 is hard to forecast, but it is safe to say that such a decrease is far from a given.

If you are concerned about the possibility of the estate tax exemption decreasing, you may wish to transfer property before the end of 2025 to use up all or most of your remaining exemption amount and “lock in” the higher exemption amount. Treasury Regulations (referred to as the “anti-clawback” rules) issued in 2019 effectively approved this strategy and clarified that, generally, the IRS will not impose an additional estate tax if the exemption at an individual’s death is lower than the exemption available and used by the individual at the time the individual made lifetime gifts. Gifts designed to lock in use of your current estate tax exemption can be structured in many ways. Please contact us if you would like to explore your options.

Required Minimum Distributions

As described in prior newsletters, the SECURE Act, which was signed into law on December 20, 2019, made substantial changes to the rules governing IRAs and other qualified plans. One of the most significant changes eliminated the ability of most non-spouse beneficiaries to “stretch” withdrawals from inherited IRAs or other qualified retirement plans (known as required minimum distributions, or “RMDs”) over the beneficiary’s life expectancy. Instead, these beneficiaries are required to withdraw all of the account assets within ten years of the plan participant’s death. (Note: This change affects accounts of participants who died after December 31, 2019.)

There has been significant confusion on whether beneficiaries subject to this new “ten-year rule” (i) must take RMDs over the course of the ten-year period before taking the balance of the assets at the end of the period or (ii) may defer all

withdrawals during the ten-year period and take a single lump sum at the end of the period. Due to this confusion, the IRS recently issued Notice 2023-54, which provides that beneficiaries subject to the ten-year rule will not be penalized if they failed to take distributions in tax years 2021, 2022, or 2023.

Proposed Regulations issued in February 2022 aim to clarify the requirements and provide that if the original account owner passed away in 2020 or later and on or after the date that he or she must begin taking RMDs (known as a required beginning date, or “RBD”), a non-spouse beneficiary must take RMDs each year throughout the ten-year period. If the original account owner died in 2020 or later but prior to his or her RBD, a non-spouse beneficiary may take a lump sum at the end of the ten-year period.

In anticipation of the Proposed Regulations becoming Final Regulations in 2024, non-spouse beneficiaries who are required to take RMDs under the Proposed Regulations should begin taking RMDs in 2024.

In addition, on December 29, 2022, President Biden signed into law the SECURE 2.0 Act, which makes a number of changes to retirement plans. Most notably, participants born after December 31, 1950, may now defer taking RMDs until age 73, and participants born after December 31, 1959, may defer taking RMDs until age 75. (Note: For participants born in 1959, Congress is expected to issue technical corrections to the SECURE 2.0 Act to clarify that the RBD for participants born in 1959 is intended to be age 73.)

Owners of Roth IRAs are not required to take RMDs during their lifetime and starting in 2024, RMDs are no longer required from designated Roth accounts in a 401(k) or 403(b) plan during the owner’s lifetime. (Note: RMDs are still required for designated Roth accounts in 2023, including those with an RBD of April 1, 2024.)

2024 IRA Qualified Charitable Distribution Changes

For individuals aged 70 ½ or over, the IRS allows you to make tax-free transfers directly from your IRA to any charity or charities of your choosing via a qualified charitable distribution (“QCD”). In 2024, the QCD limit increases from \$100,000 to \$105,000. Since QCDs go directly to charity, the funds transferred are not included in your gross income. Thus, QCDs allow you to remove up to \$105,000 from your gross income each year (or \$210,000 for a married couple). In addition, for those individuals who are aged 73 and over, QCDs count toward your RMDs for the year.

2024 Retirement Plan Contribution Limit Changes

The IRS has also announced new contribution limits for retirement plans in 2024.

- The annual limit on contributions to an IRA increases from \$6,500 to \$7,000. In addition, for individuals aged 50 and over, the catch-up contribution limit remains at \$1,000. Therefore, individuals aged 50 and over can contribute up to \$8,000 to an IRA.
- The annual contribution limit for employees participating in 401(k), 403(b), and most 457 plans increases from \$22,500 to \$23,000. In addition, for employees aged 50 and over, the catch-up contribution limit remains at \$7,500. Therefore, employees aged 50 and over can contribute up to \$30,500 to their 401(k), 403(b), and 457 plans.

Our Trusts & Estates Lawyers

Please contact your Shipman & Goodwin estate planning attorney if you have any questions on the issues described above or would like to review your estate plan generally.

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Welcome to Donna D. Vincenti

We welcome Donna Vincenti to our Lakeville office. Donna has nearly 40 years of experience counseling clients in estate and tax planning, wills and trusts, charitable gifts, probate law and estate administration.



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