



Connecticut Estate Taxes & Probate Fees 2016

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Region 22 Probate District

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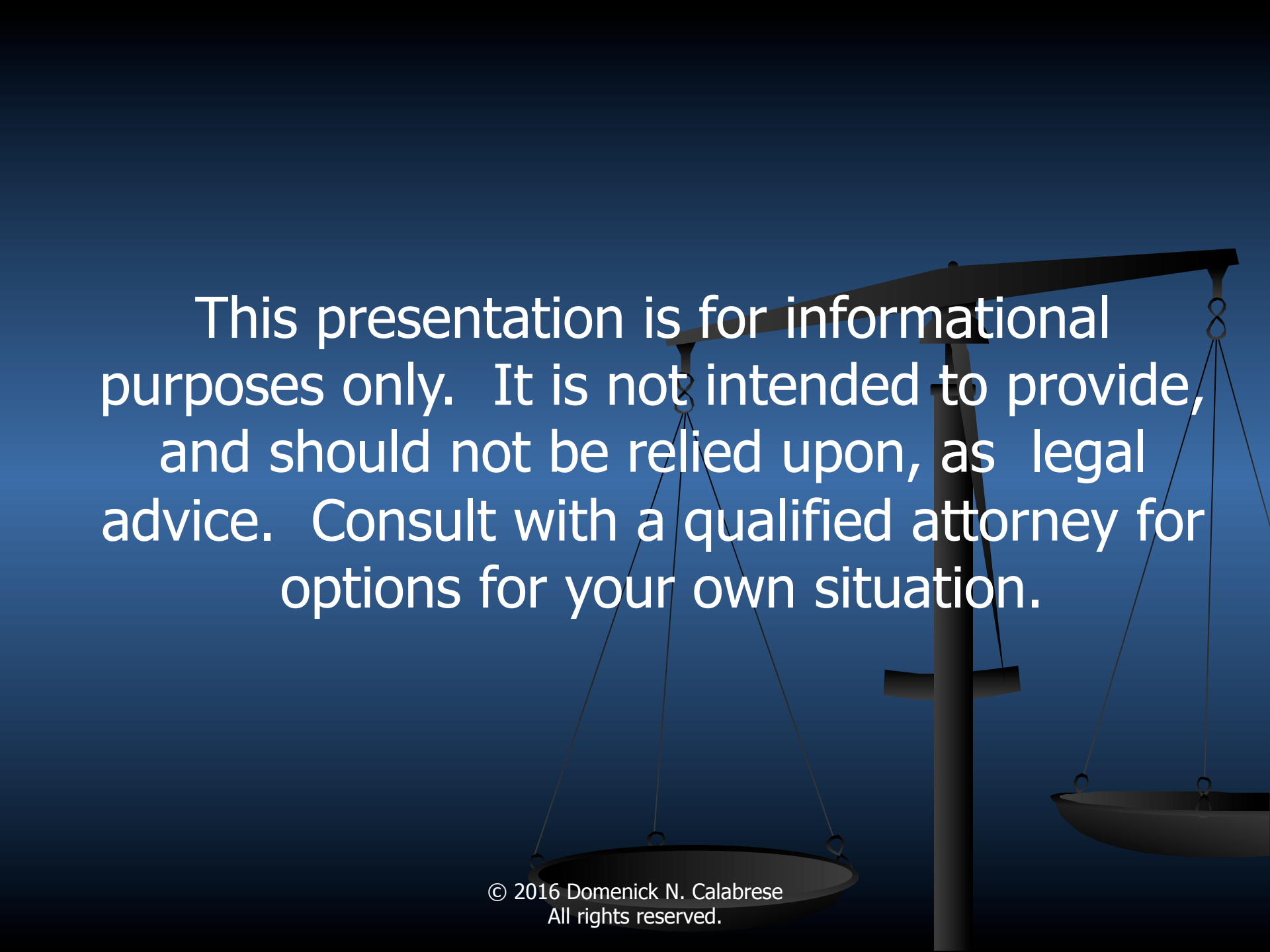
Seminars

- Living Trusts: Myths versus Reality
- Real Estate & Probate
- Probate: How, What & Why After the Loss of a Loved One
- Wills
- Incapacity, Conservatorships & the Probate Court
- Guardianships
- Probate & Unclaimed Property

Articles



- Estate Taxes
- Living Trusts
- Pet Trusts
- Probate & Real Estate
- Unclaimed Property in Connecticut
- Wills
- Powers of Attorney
- Healthcare Representatives
- Advance Designation of Conservator
- Conservatorships, Incapacity and the Probate Court



This presentation is for informational purposes only. It is not intended to provide, and should not be relied upon, as legal advice. Consult with a qualified attorney for options for your own situation.

Agenda

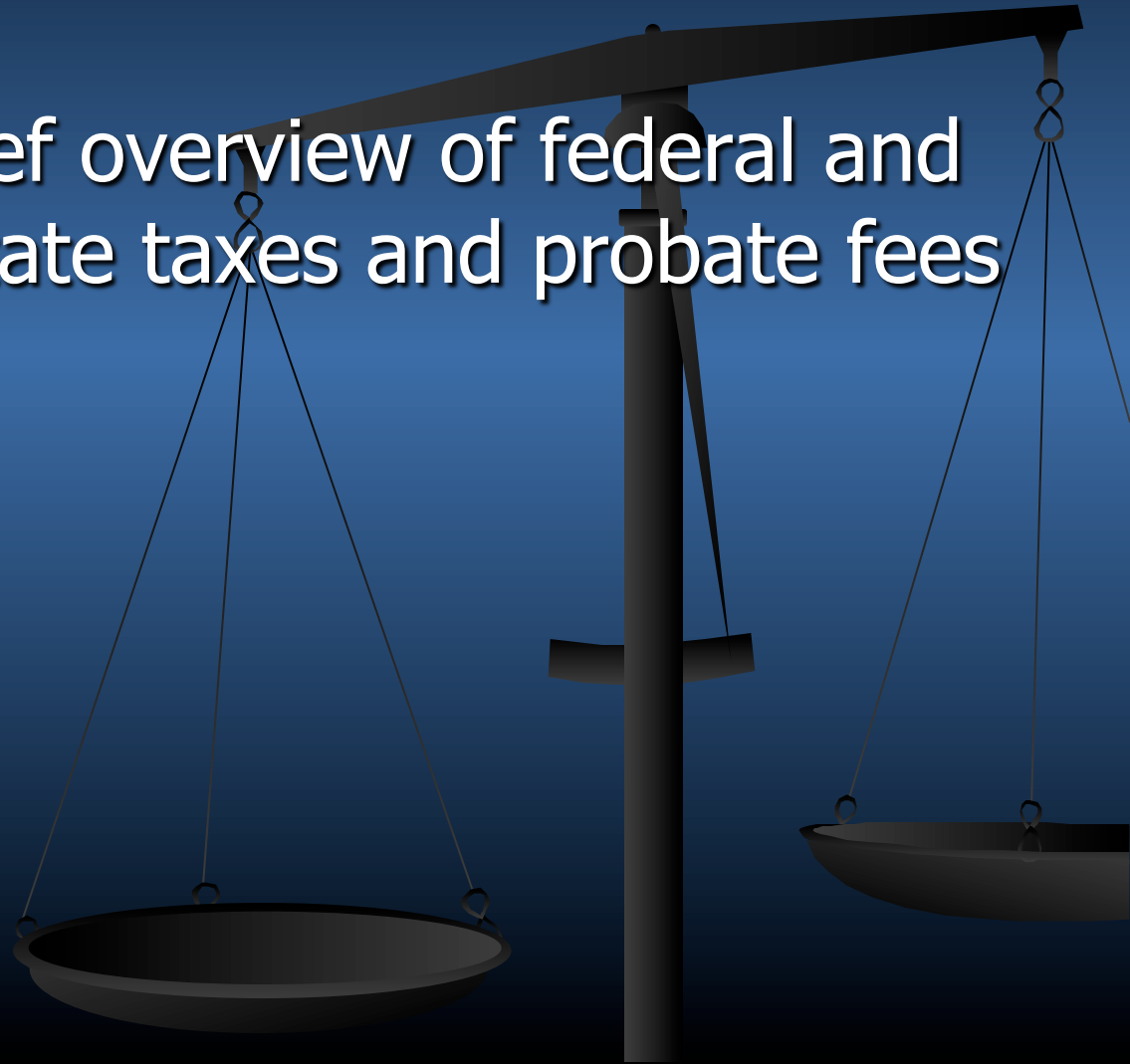
- Seminar Objective
- What is Estate Tax?
- Who is Subject to Estate Tax?
- Exclusions
- Deductions
- Rates
- Filing
- Payment
- Connecticut Estate Tax Liens
- Gift Tax
- Questions

SEMINAR OBJECTIVE



Objective

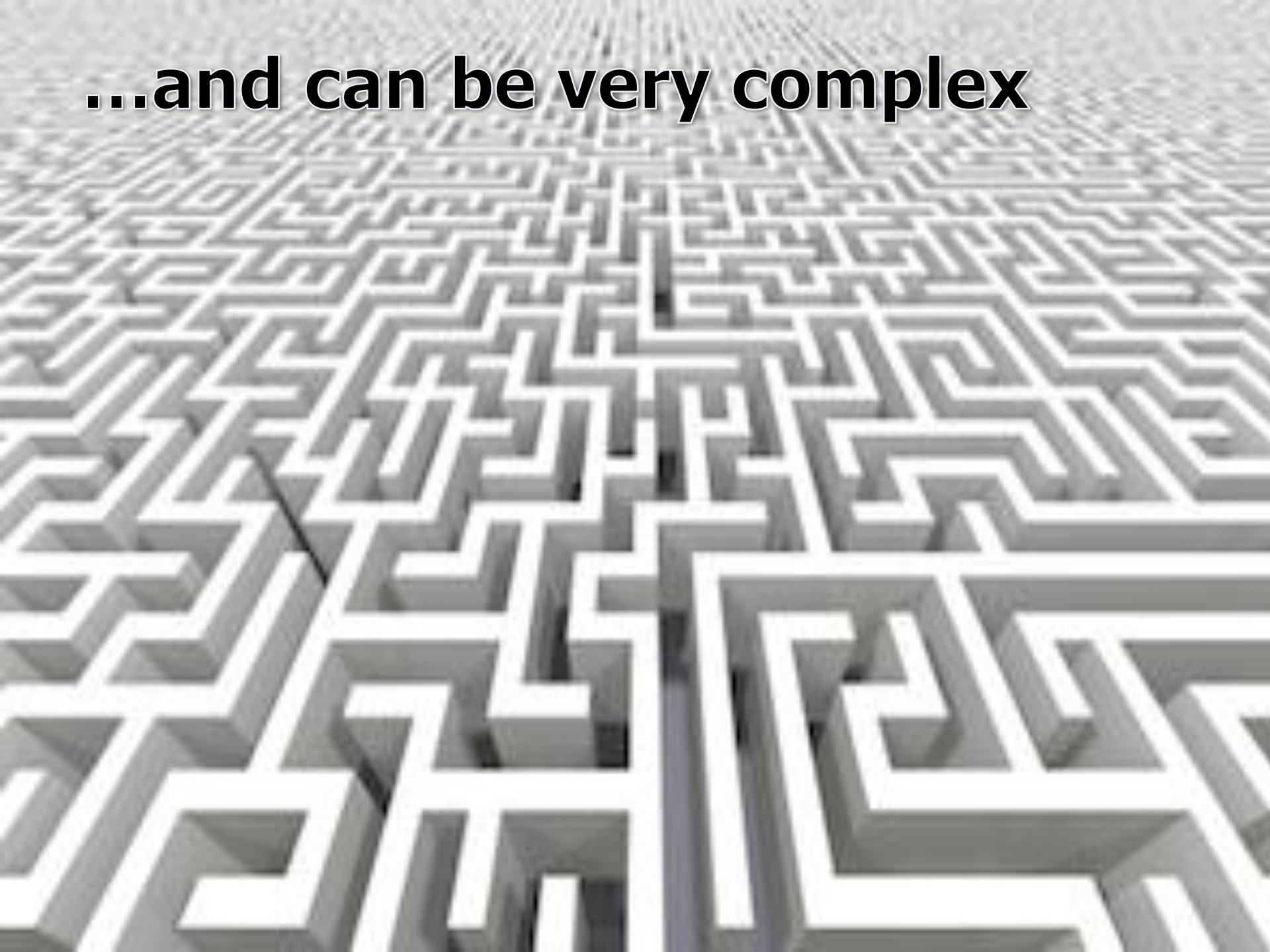
To provide a brief overview of federal and Connecticut estate taxes and probate fees



Estate tax covers a lot of ground...



...and can be very complex





Seemingly minor changes in the facts of a specific case may have a dramatic effect on tax liability.

Time and venue issues require the scope of this presentation to be very limited.

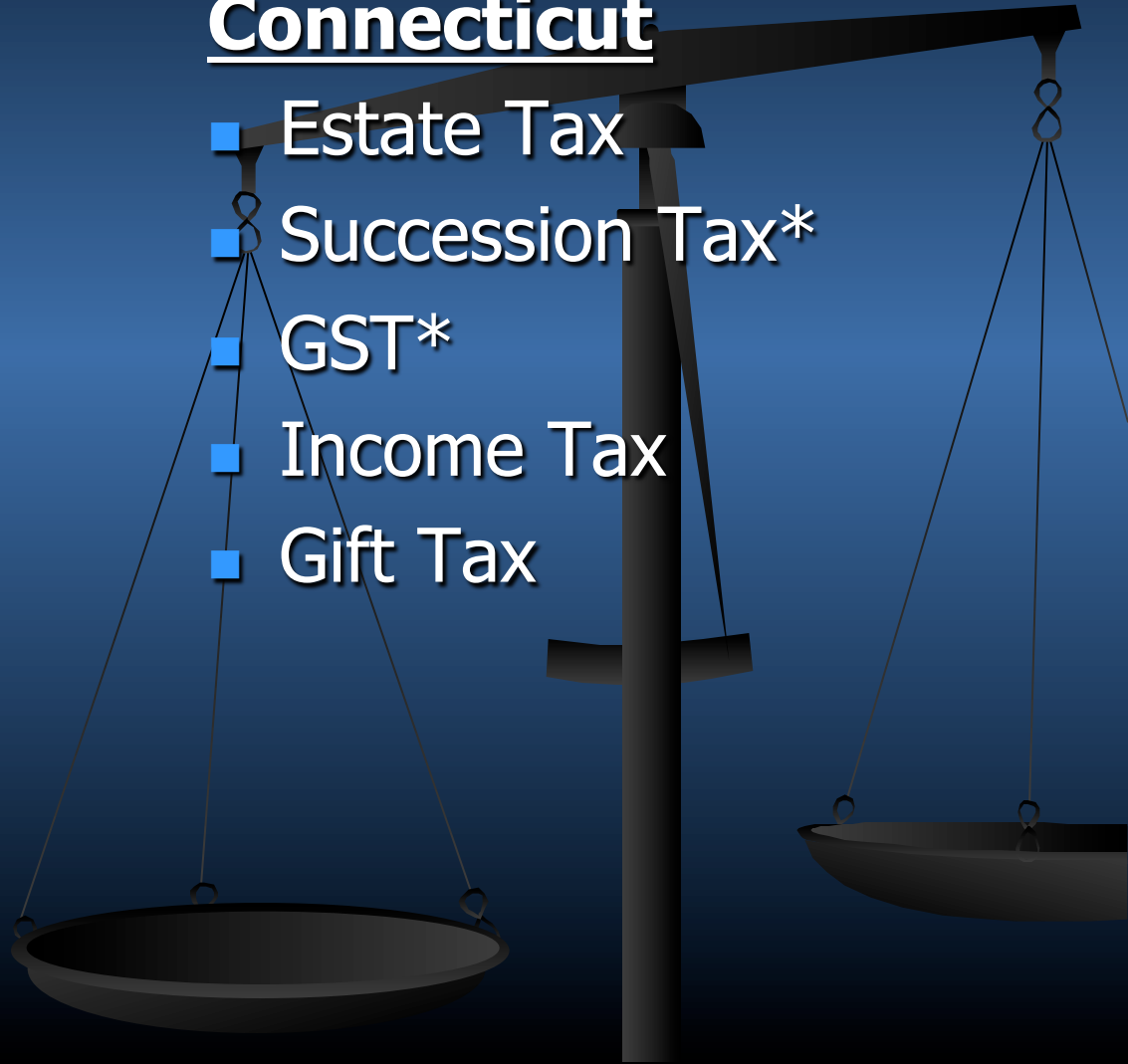
Estate Taxes

Federal

- Estate Tax
- Gift Tax
- GST
- Income Tax

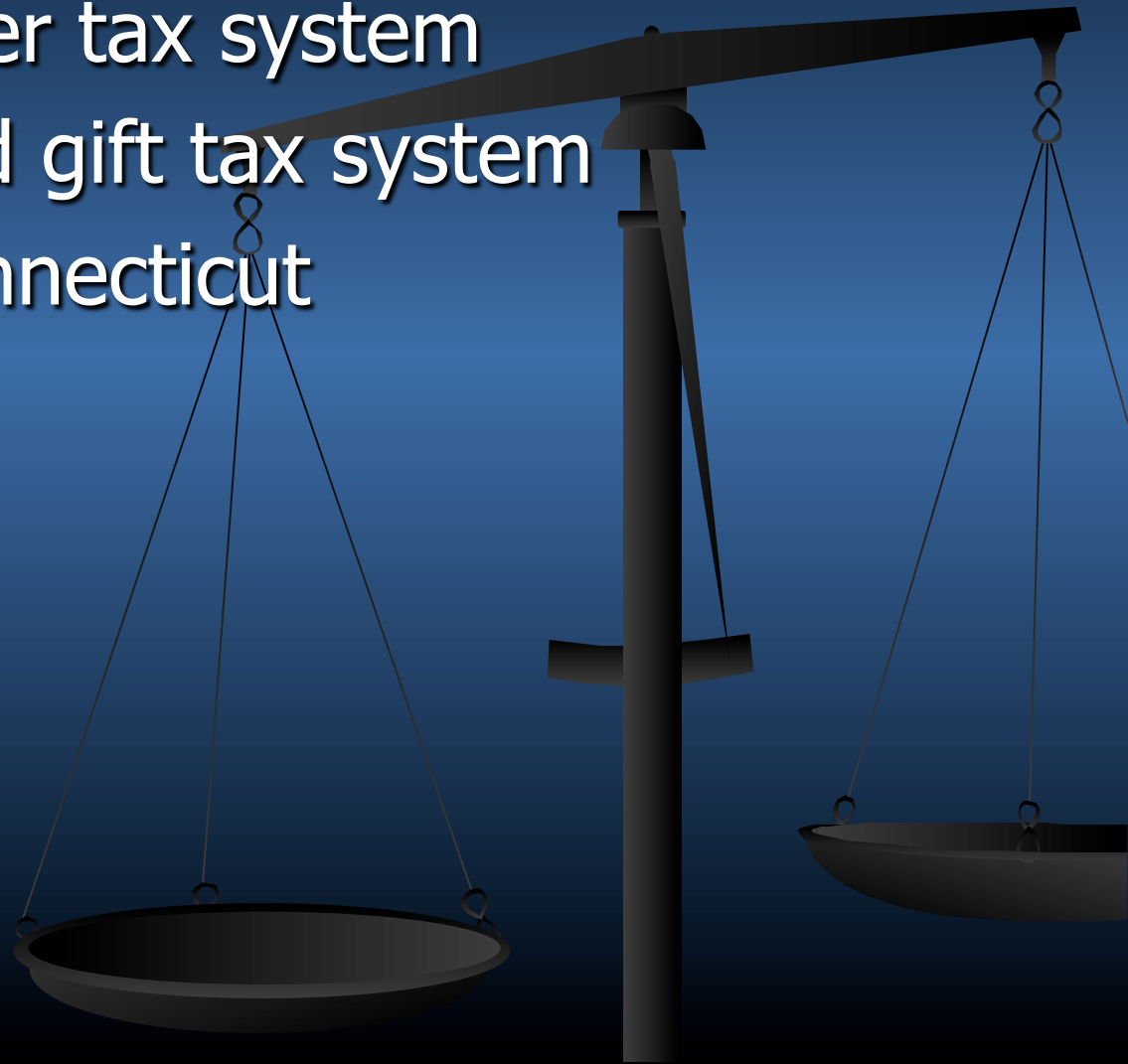
Connecticut

- Estate Tax
- Succession Tax*
- GST*
- Income Tax
- Gift Tax



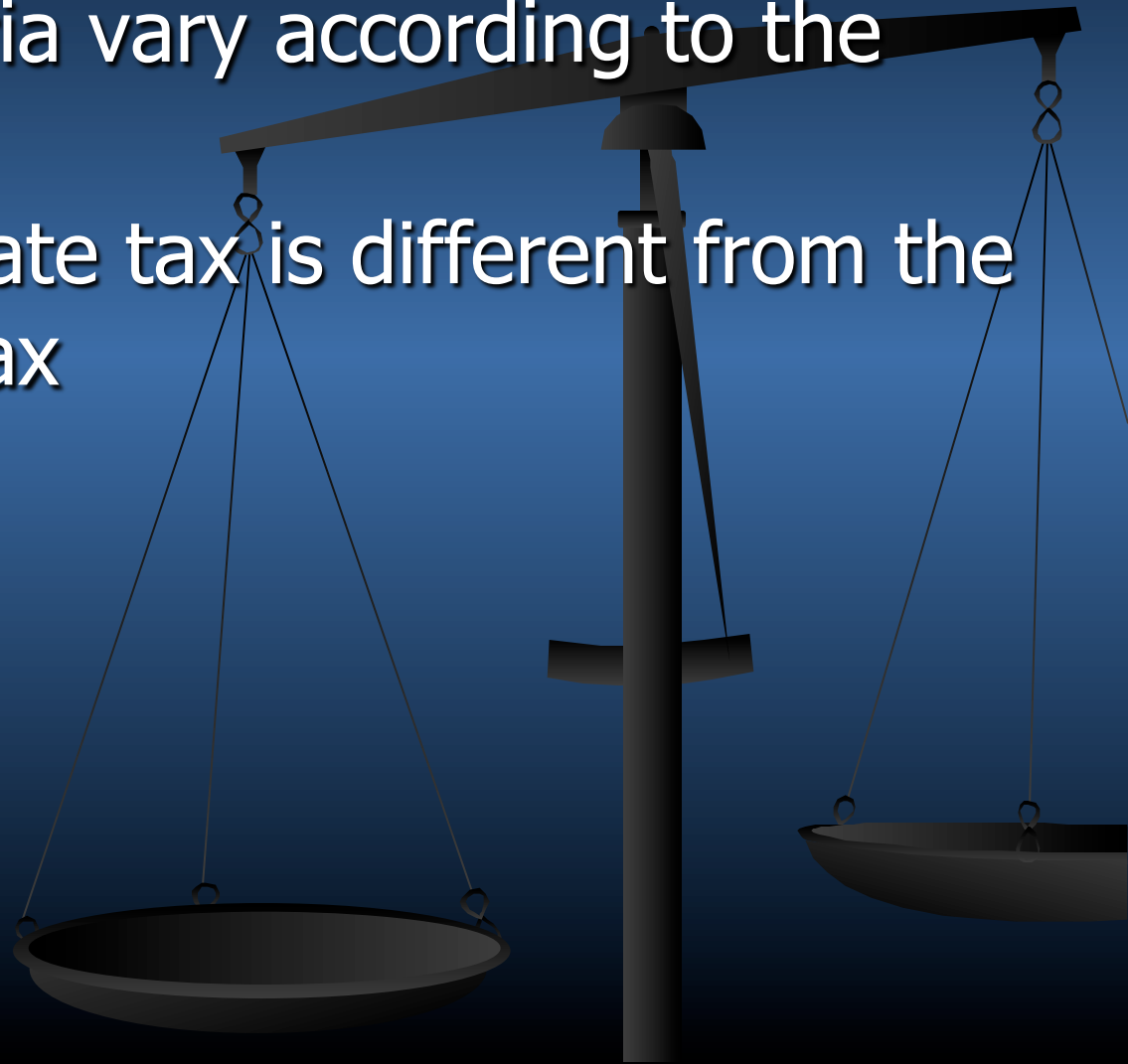
Unified System

- “Unified” transfer tax system
- Links estate and gift tax system
- Federal and Connecticut



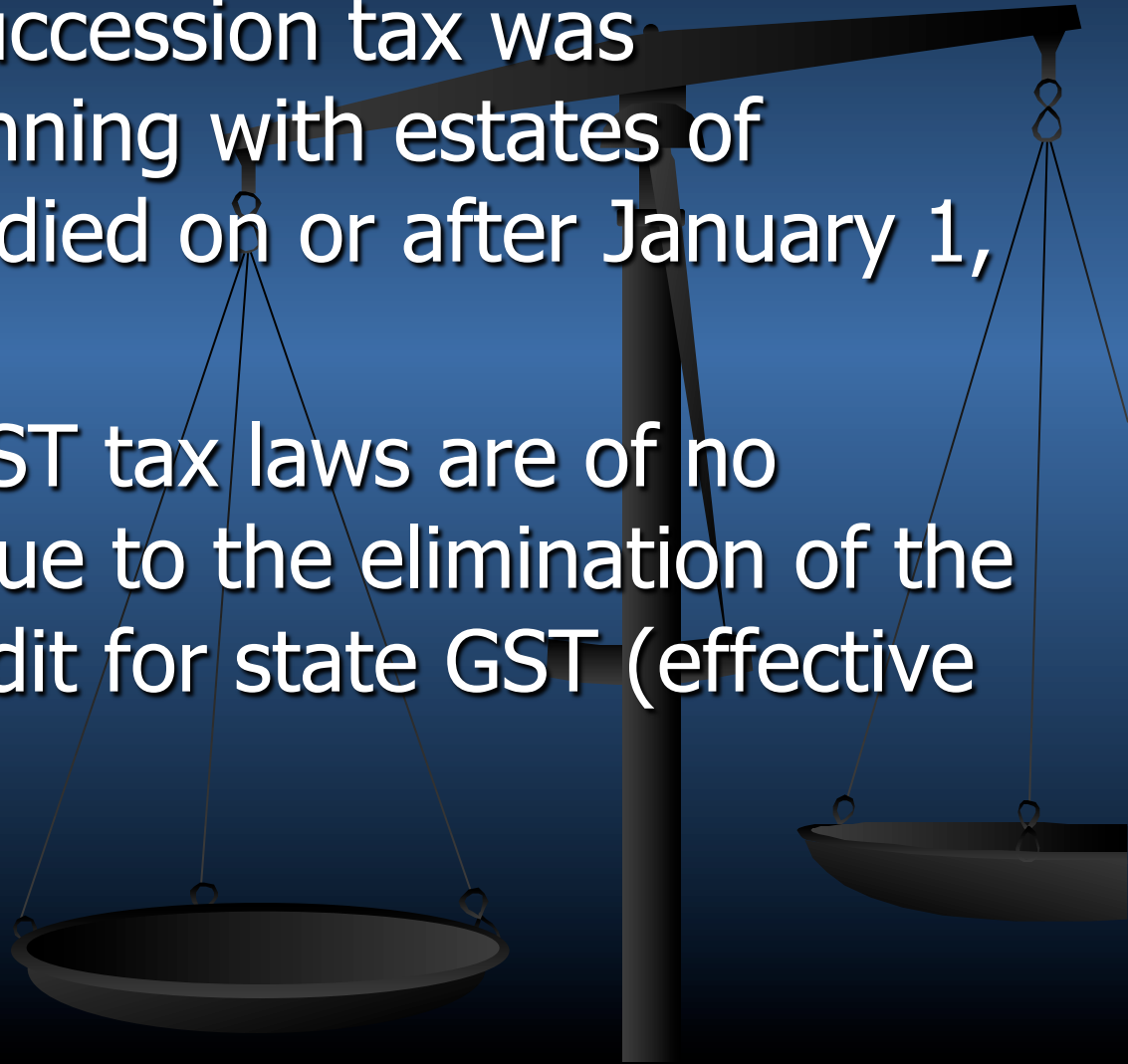
In General...

- Estate tax criteria vary according to the year of death
- Connecticut estate tax is different from the federal estate tax



Note

- Connecticut's succession tax was eliminated beginning with estates of decedents who died on or after January 1, 2005
- Connecticut's GST tax laws are of no effect in 2016 due to the elimination of the federal GST credit for state GST (effective 1/1/2005)

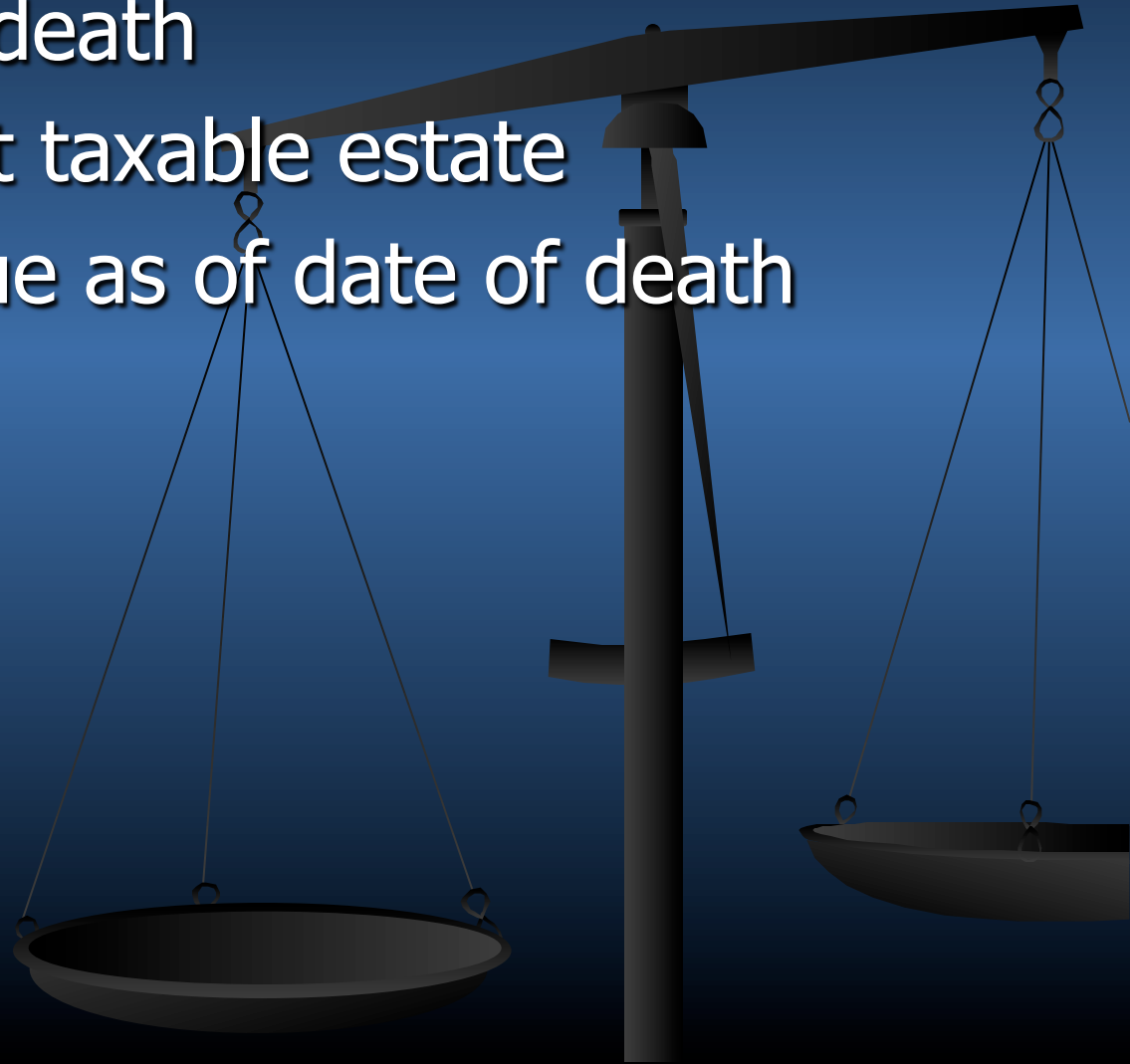




WHAT IS ESTATE TAX?

Estate Tax

- Transfer tax at death
- Basis: entire net taxable estate
- Fair market value as of date of death



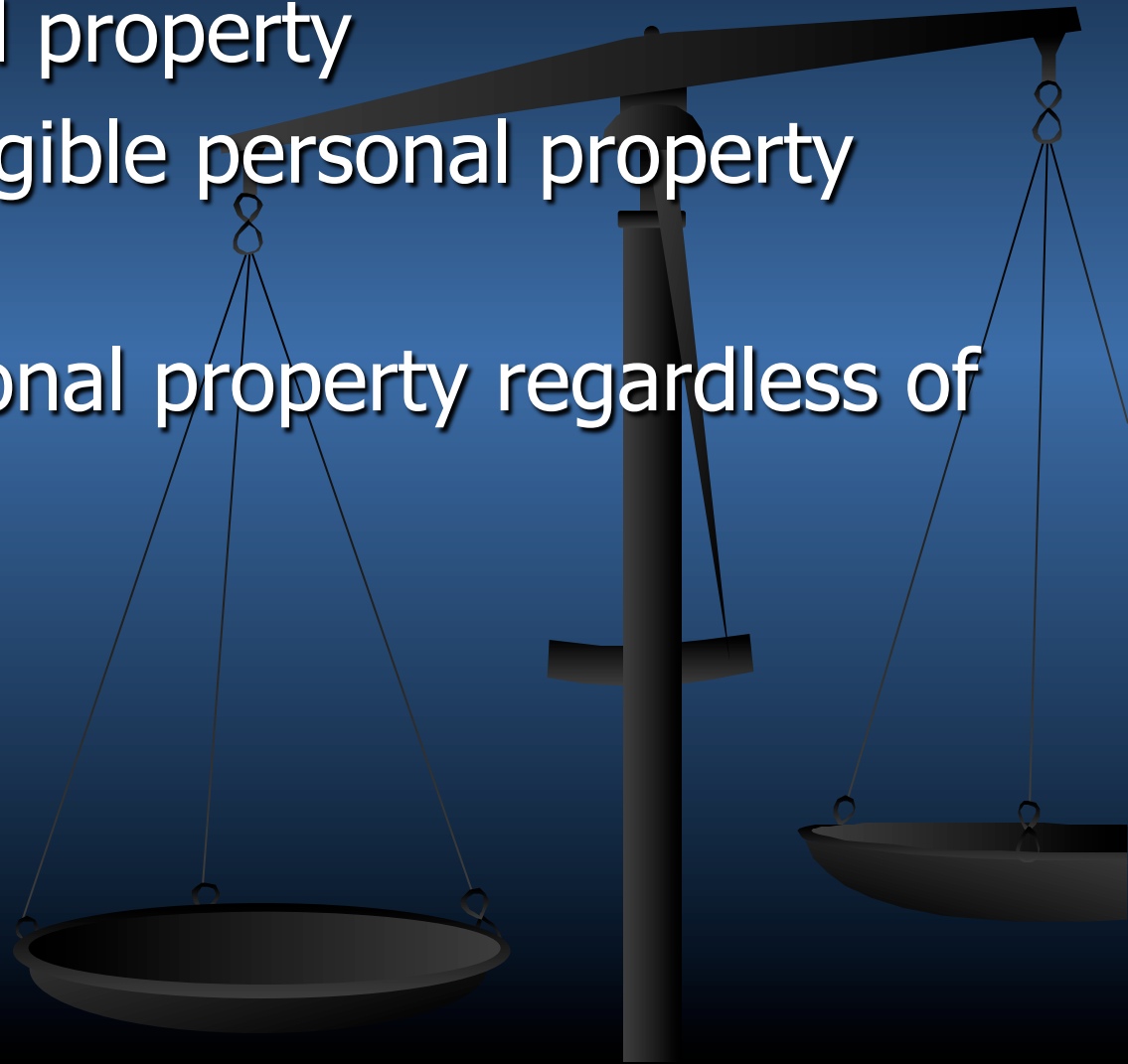
Gross Estate

- Business interests
- Real property
- Cash and securities
- Trusts
- Annuities
- Other assets



Connecticut Gross Estate

- Connecticut real property
- Connecticut tangible personal property
 - Motor vehicles
- Intangible personal property regardless of location

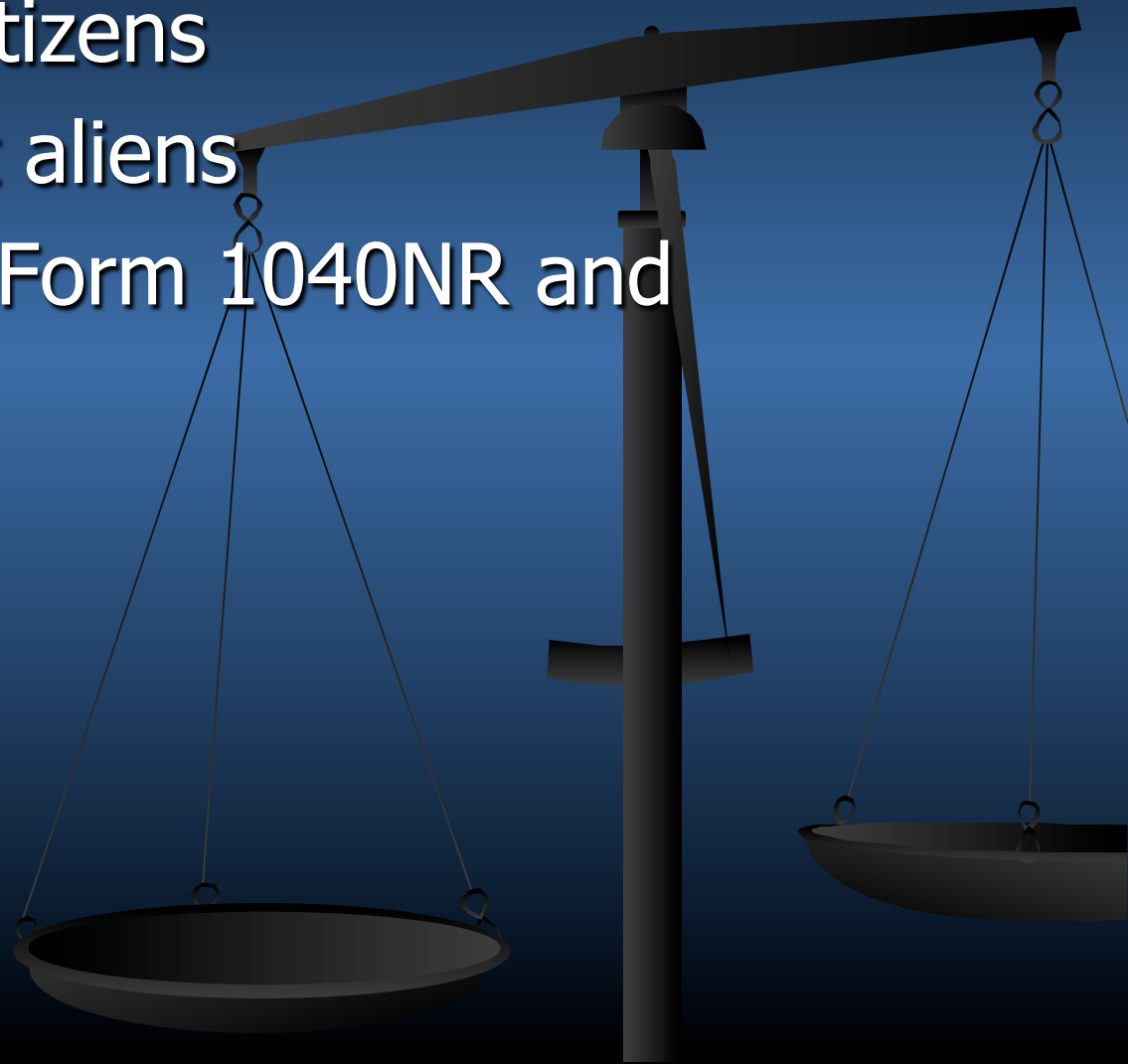




WHO IS SUBJECT TO ESTATE TAX

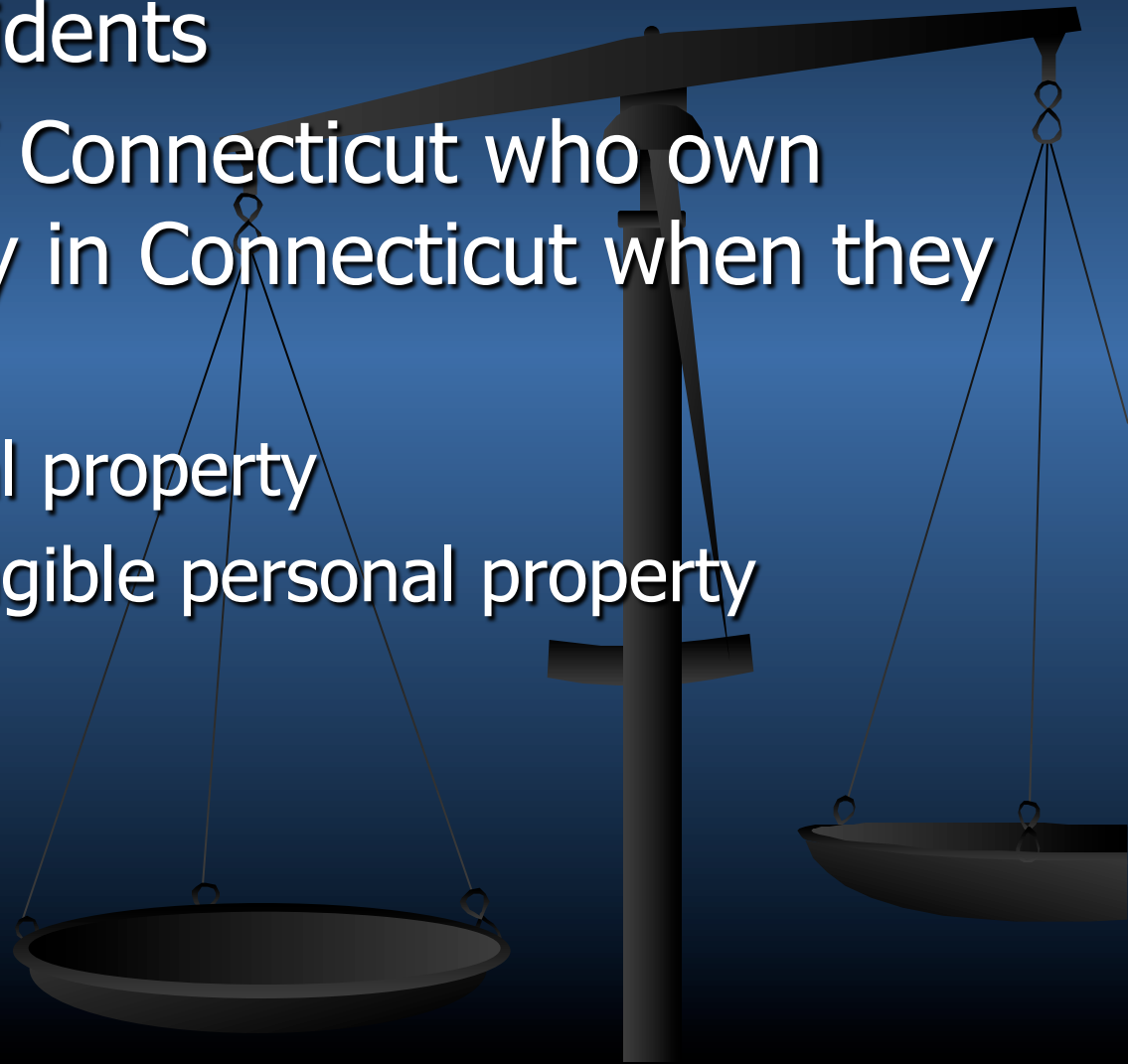
Federal

- United States citizens
- Certain resident aliens
- Reference: IRS Form 1040NR and instructions



Connecticut

- Connecticut residents
- Nonresidents of Connecticut who own taxable property in Connecticut when they die
 - Connecticut real property
 - Connecticut tangible personal property



EXCLUSIONS



Exclusions

- Also known as:
 - Exemptions
 - Unified Credit

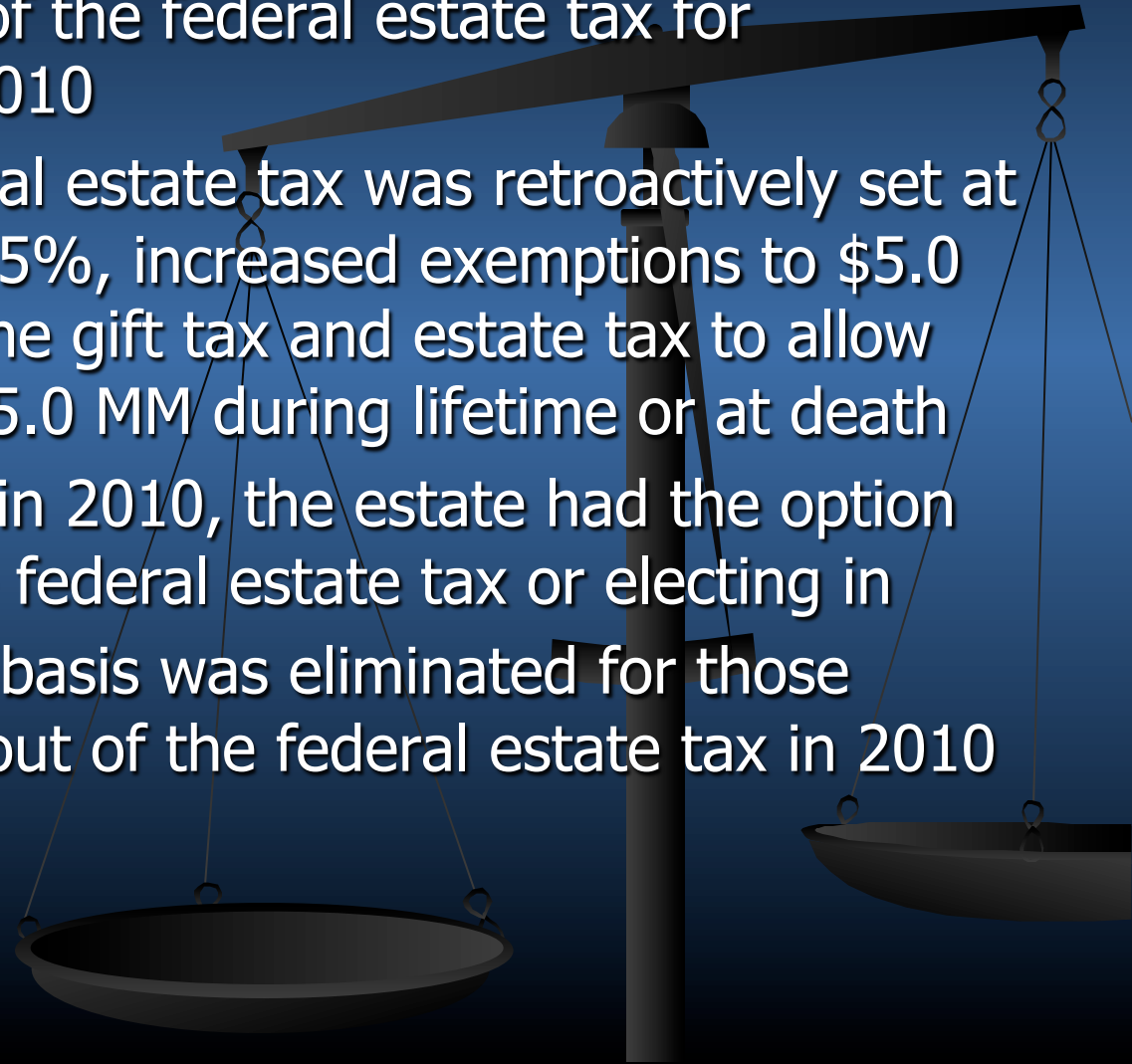


Estate Tax Exclusions

Year	Connecticut	Federal
2016	\$2.0 million	\$5.45 million
2015	\$2.0 million	\$5.43 million
2014	\$2.0 million	\$5.34 million
2013	\$2.0 million	\$5.25 million
2012	\$2.0 million	\$5.12 million
2011	\$2.0 million	\$5.0 million
2010	\$3.5 million	\$5.0 million*

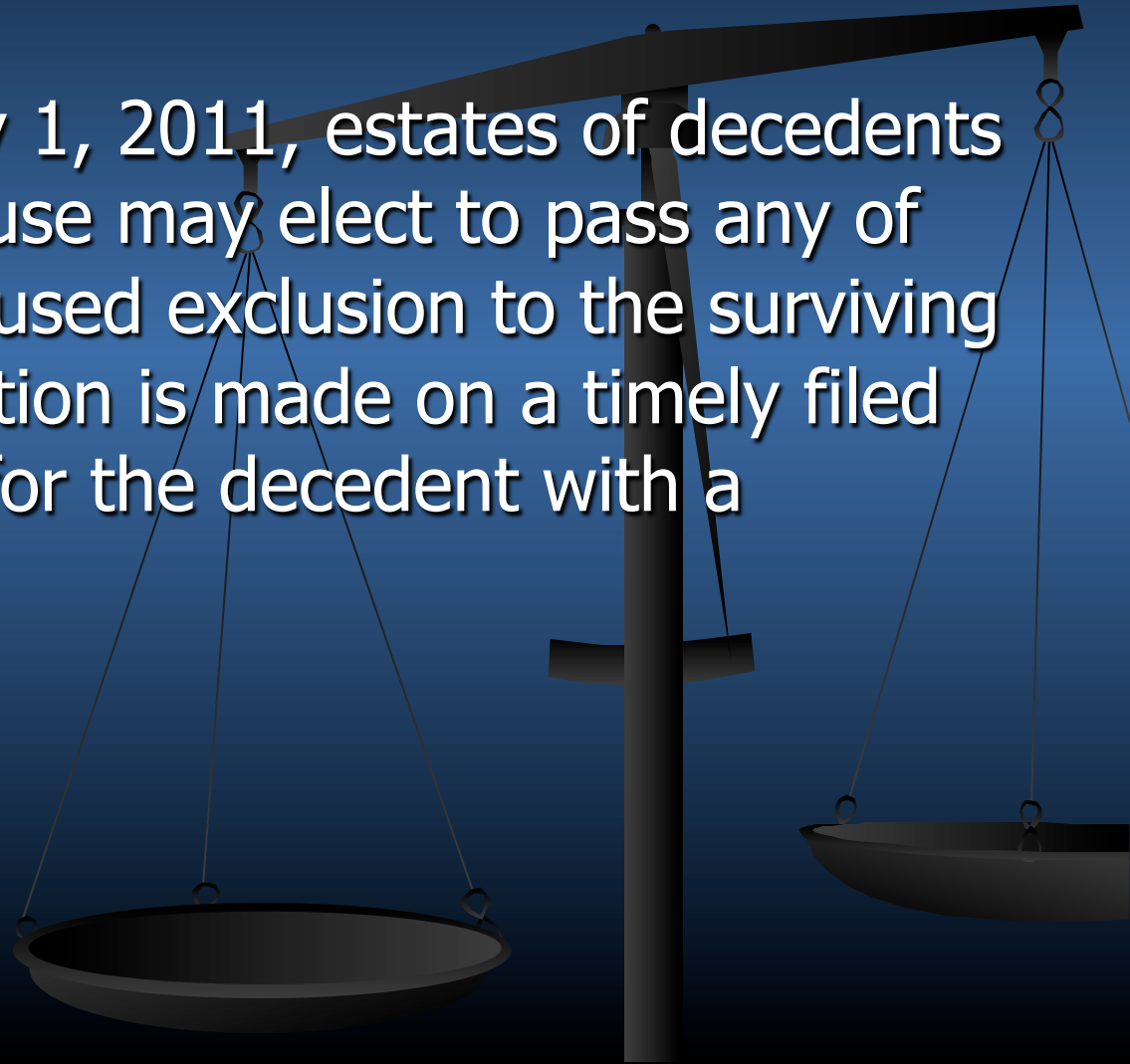
*2010 Federal Rate

- Temporary “repeal” of the federal estate tax for decedents dying in 2010
- 2010 Tax Act: Federal estate tax was retroactively set at a maximum rate of 35%, increased exemptions to \$5.0 million, and unified the gift tax and estate tax to allow utilization of entire \$5.0 MM during lifetime or at death
- For decedents dying in 2010, the estate had the option of electing out of the federal estate tax or electing in
- Step-up in carryover basis was eliminated for those estates that elected out of the federal estate tax in 2010



Portability

- Federal only
- Beginning January 1, 2011, estates of decedents survived by a spouse may elect to pass any of the decedent's unused exclusion to the surviving spouse. This election is made on a timely filed estate tax return for the decedent with a surviving spouse



Exclusions: A Comparison

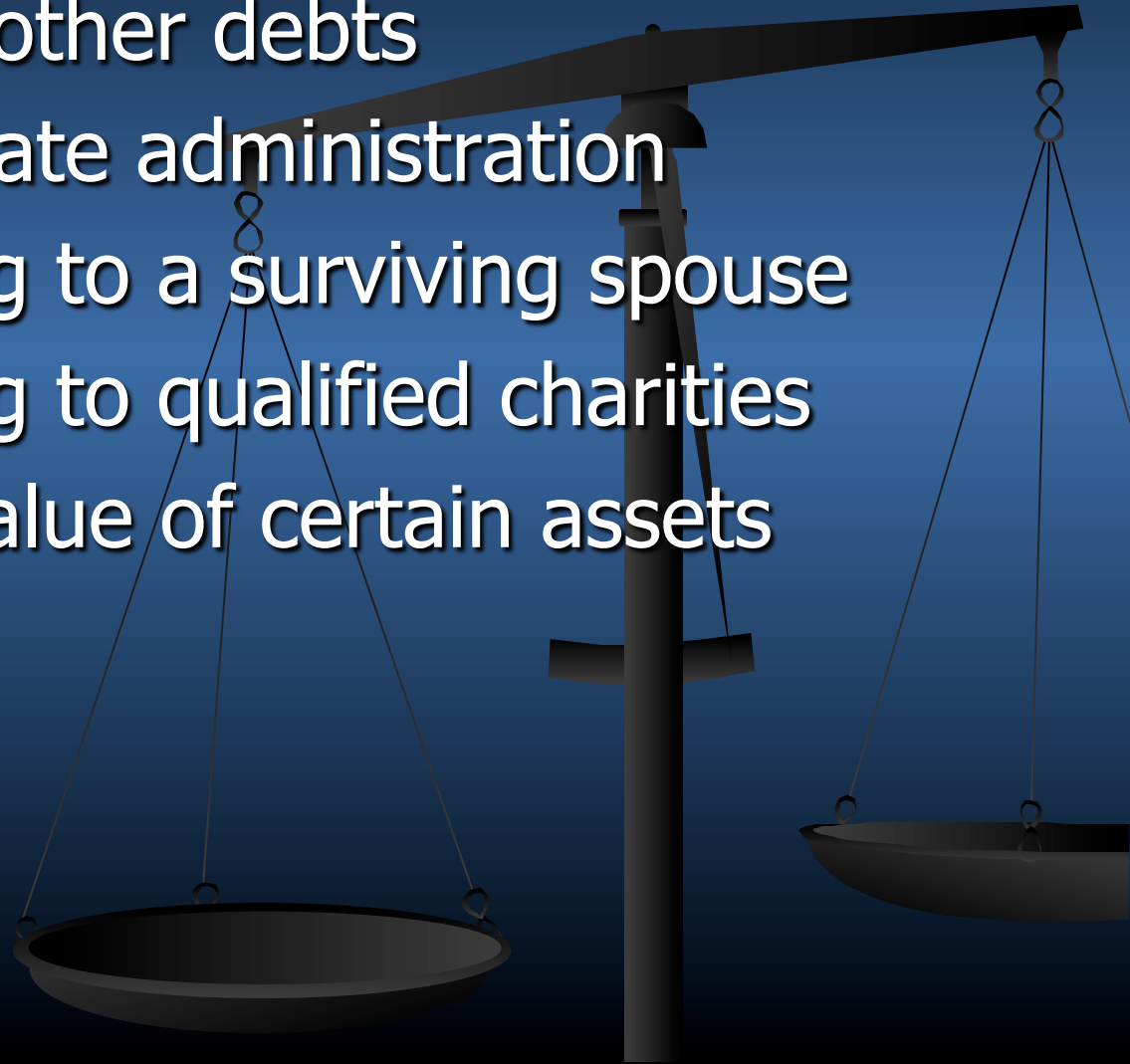
	Connecticut	Federal
Unlimited between spouses	✓	✓
2016	\$2 million	\$5.45 million
Indexed to inflation		✓
Portable between spouses		✓

DEDUCTIONS



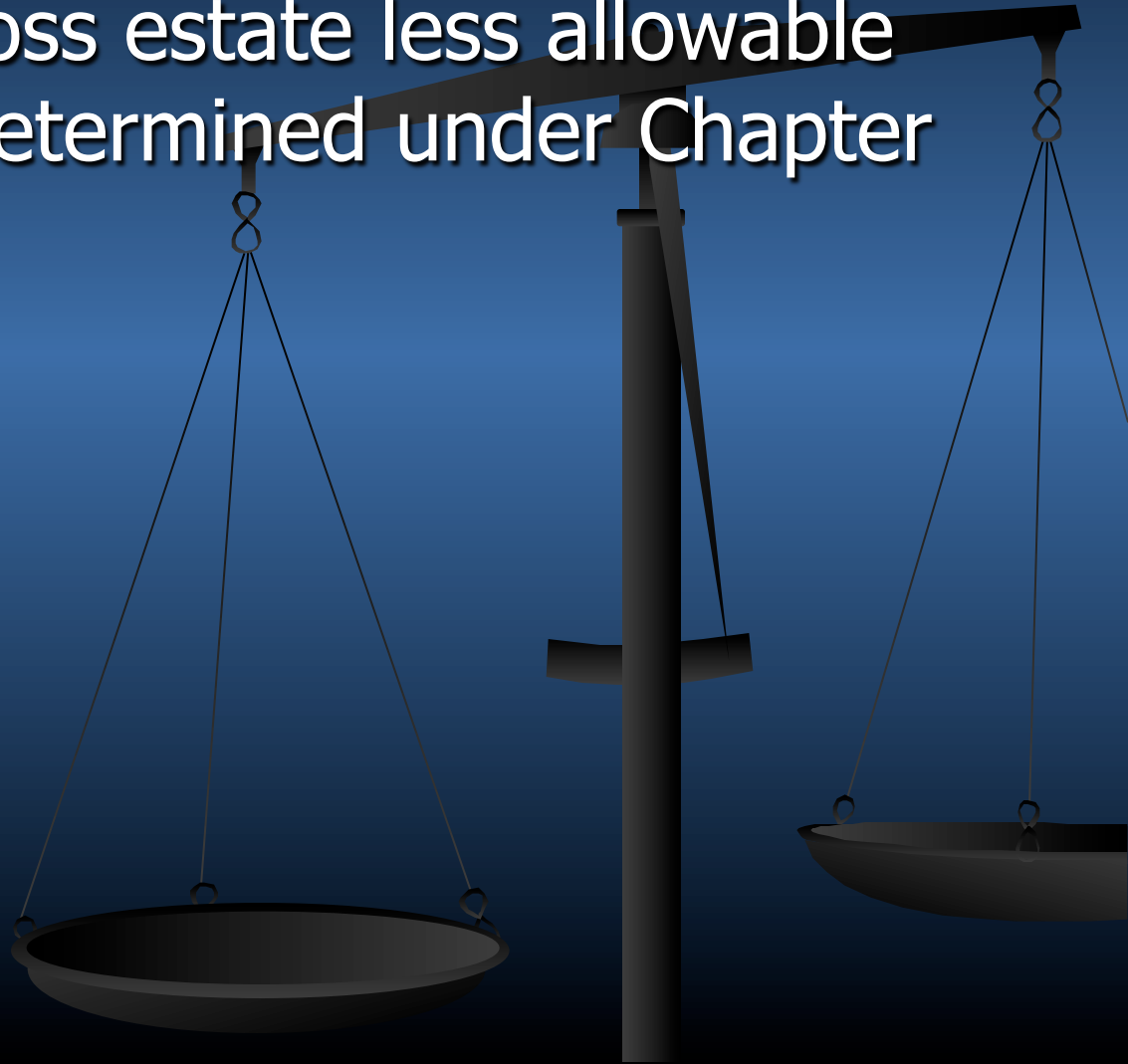
Deductions

- Mortgages and other debts
- Expenses of estate administration
- Property passing to a surviving spouse
- Property passing to qualified charities
- Reductions in value of certain assets



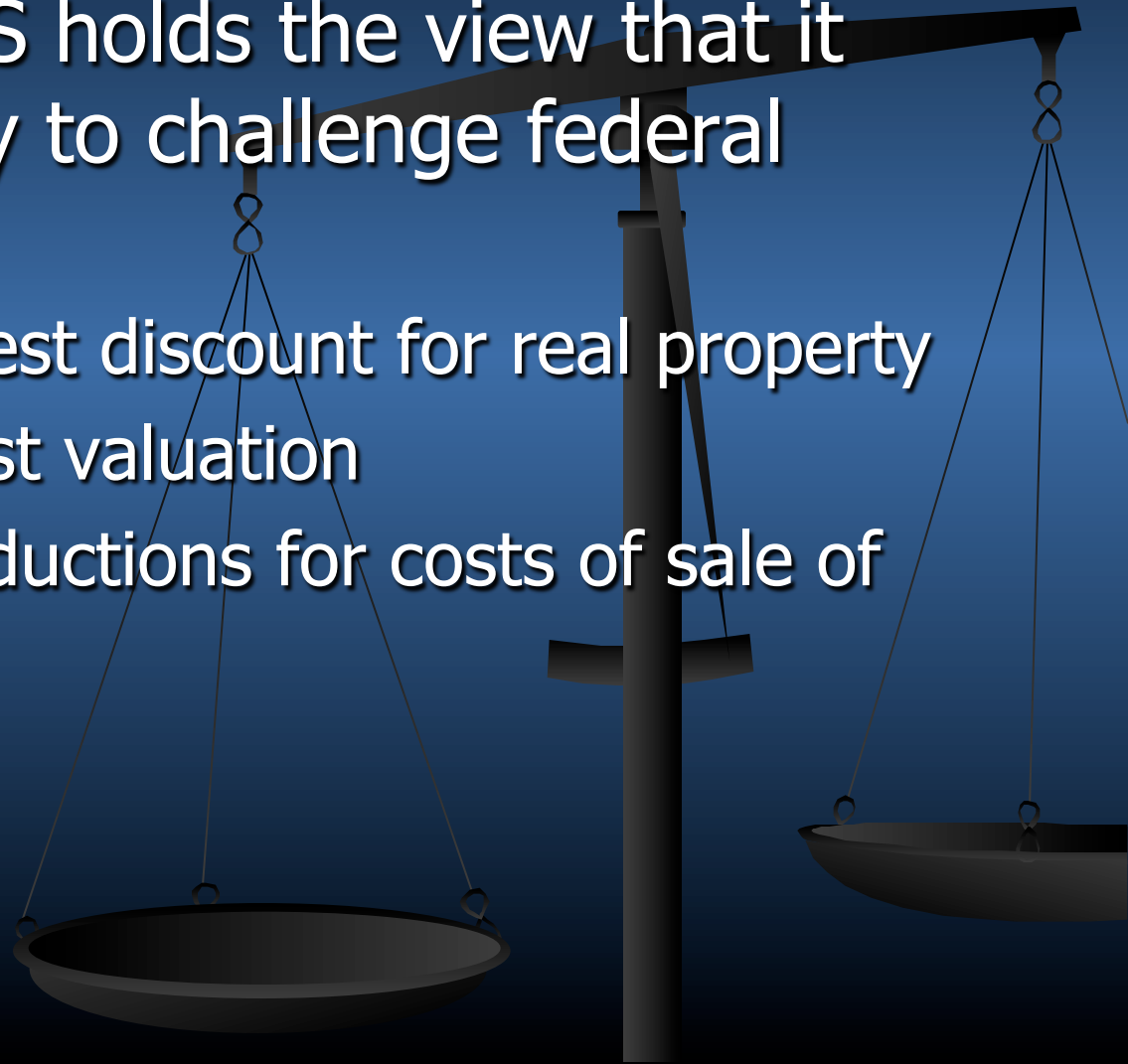
Connecticut

- Connecticut: gross estate less allowable deductions as determined under Chapter 11 of IRC




However...

- Connecticut DRS holds the view that it retains authority to challenge federal determinations
 - Fractional interest discount for real property
 - Business interest valuation
 - IRS allowed deductions for costs of sale of estate property



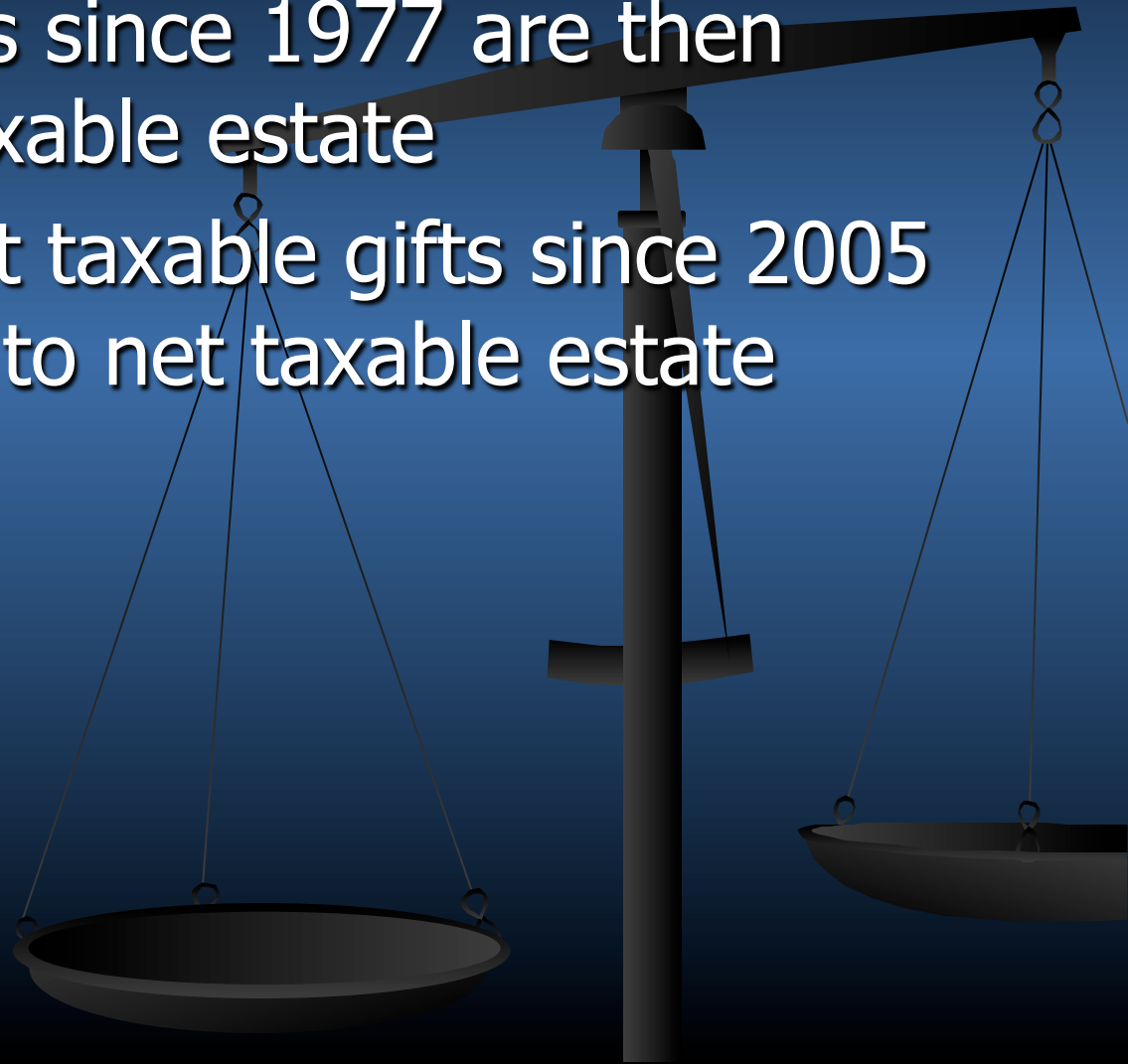
Net Taxable Estate Calculation

Gross Estate
- Deductions
Net taxable estate



Gifts

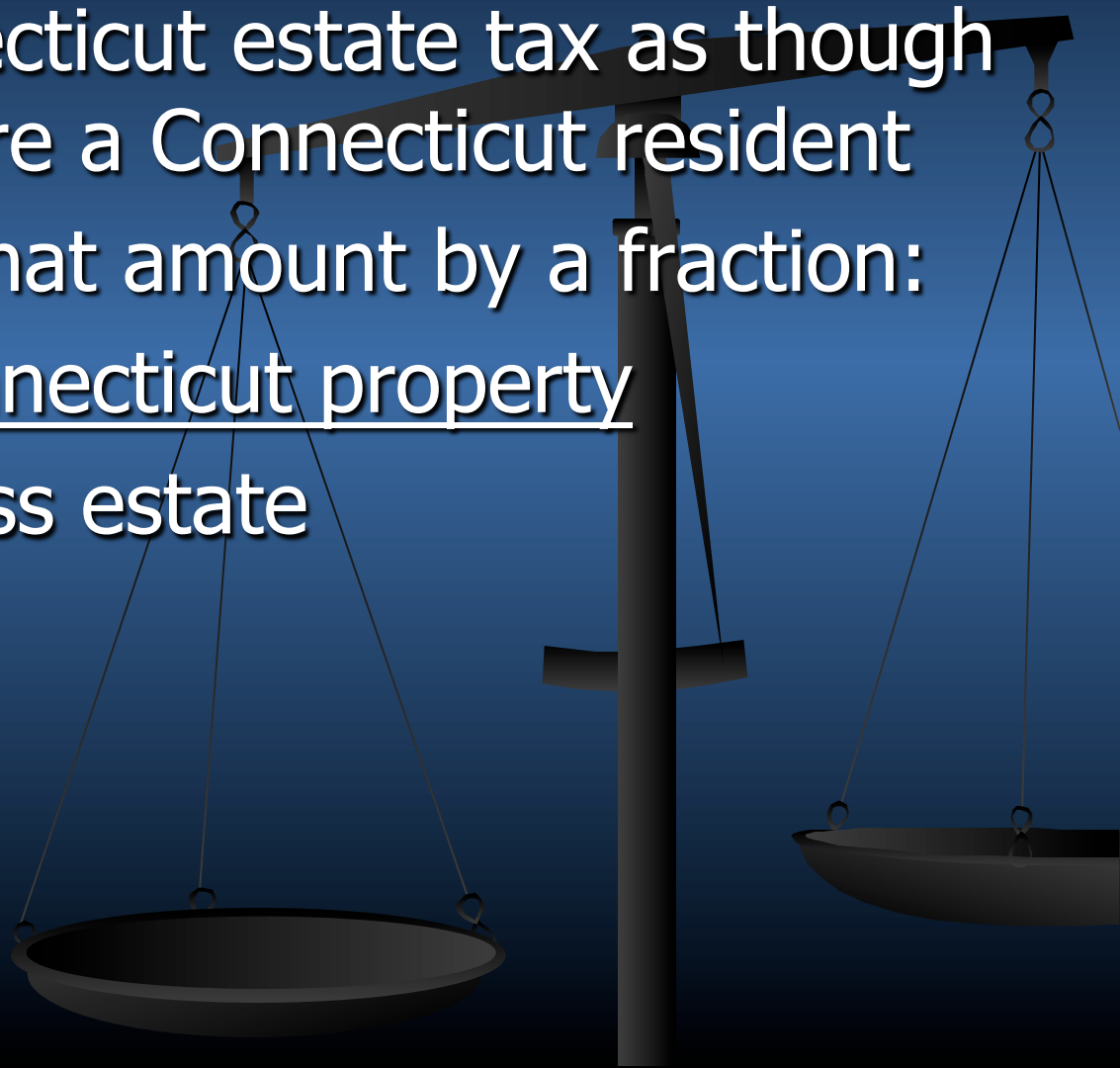
- Net taxable gifts since 1977 are then added to net taxable estate
- Connecticut: net taxable gifts since 2005 are then added to net taxable estate



Calculation of Nonresident

- Calculate Connecticut estate tax as though nonresident were a Connecticut resident
- Next, multiply that amount by a fraction:

$$\frac{\text{Value of Connecticut property}}{\text{Value of gross estate}}$$

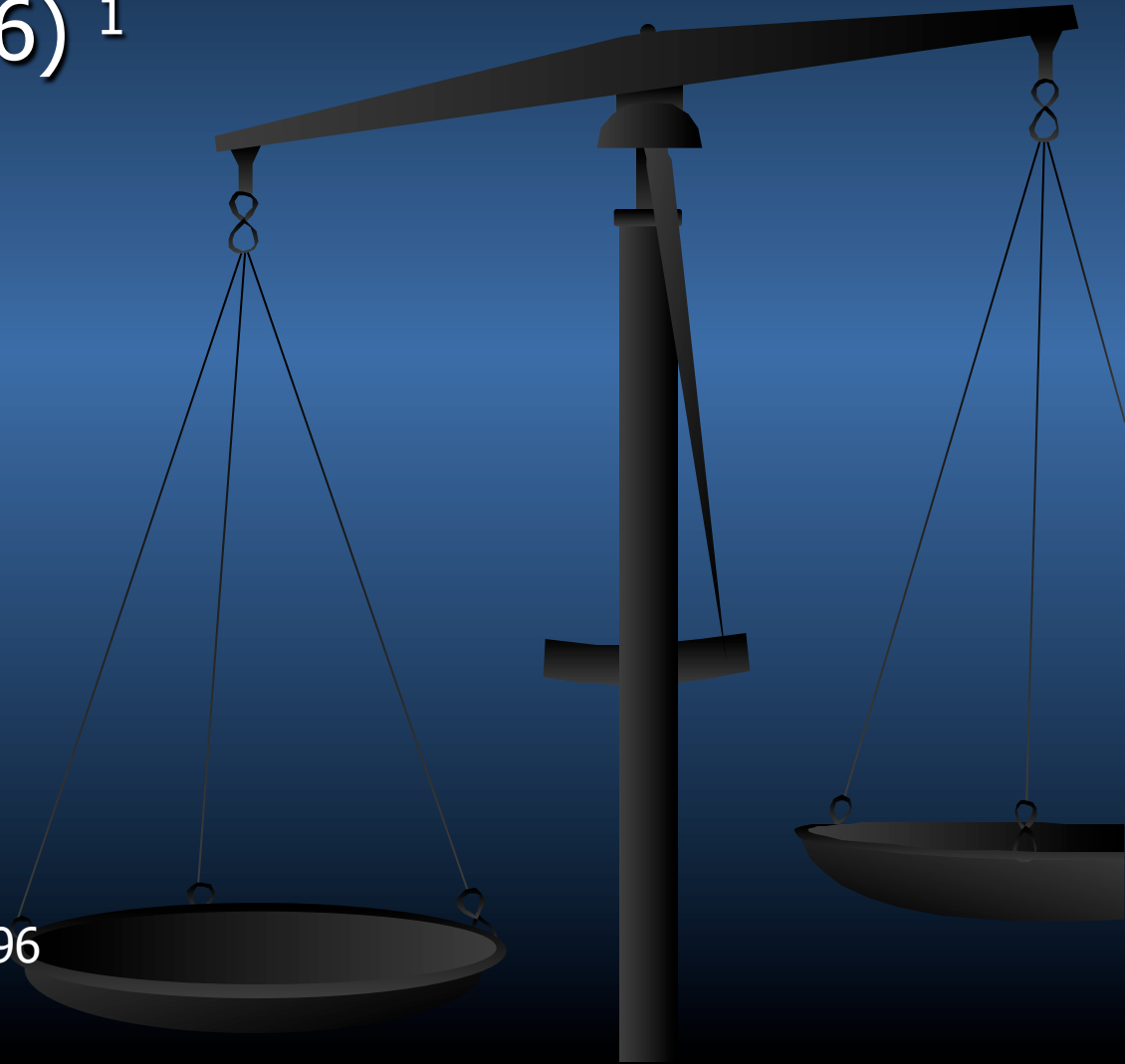


RATES



Federal

- 40% (2012-2016) ¹



1. Pub. L. No. 111-312 Stat: 3296

Connecticut

Connecticut Taxable Estate	Rate of Tax
Not over \$2 million	None
Over \$2 million but not over \$3.6 MM	7.2% of excess over \$2 million
Over \$3.6 million but not over \$4.1MM	\$115,200 + 7.8% of excess over \$3.6 MM
Over \$4.1 million but not over \$5.1 MM	\$154,200 + 8.4% of excess over \$4.1 MM
Over \$5.1 million but not over \$6.1 MM	\$238,200 + 9% of excess over \$5.1 MM
Over \$6.1 million but not over \$7.1 MM	\$328,200 + 9.6% of excess over \$6.1 MM
Over \$7.1 million but not over \$8.1 MM	\$424,200 + 10.2% of excess over \$7.1 MM
Over \$8.1 million but not over \$9.1 MM	\$526,200 + 10.8% of excess over \$8.1 MM
Over \$9.1 million but not over \$10.1 MM	\$634,200 + 11.4% of excess over \$10.1 MM
Over \$10.1 million	\$748,200 + 12% of excess over \$10.1 MM

FILING



Federal



- IRS Form 706
- 9 months after date of death
- Executor is personally responsible for payment, but is discharged upon written application to the Commissioner for determination of the tax and upon its payment
- Extension for payment may be allowed
- Filing not necessary in nontaxable estates

Connecticut

- DRS form 706NT or 706/709
- Six months from date of death
- Nine months for decedents whose date of death was between January 1, 2005 and July 1, 2009
- All decedent's estates must file a return regardless of whether there is Connecticut estate tax liability

Federal Estate Tax Summary



1. Value of all assets in which decedent had an interest as of the date of death
2. Subtract allowable deductions and reductions in asset value
3. Add in value of qualified lifetime gifts
4. Computation of tax
5. Subtract available unified credit

Connecticut Estate Tax Summary

1. Federal gross estate
2. Subtract allowable deductions and reductions in asset value
3. Add in value of lifetime Connecticut taxable gifts
4. Subtract real and tangible property located outside of Connecticut
5. Computation of tax
6. Subtract available unified credit

PAYMENT



Payment

- Subject to proration among beneficiaries/heirs
 - Unless provided otherwise in decedent's will, the equitable contribution of each beneficiary will be in proportion to the amount of taxable property passing to that beneficiary




CONNECTICUT ESTATE TAX LIENS

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Connecticut Estate Tax Liens

- Unrecorded lien on Connecticut real property
- Released upon Probate Court or DRS determination that:
 - no tax is due, or
 - payment of the estate tax with respect to the interest of the decedent in such property is adequately insured

GIFT TAX



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Gift Tax

- Transfer of property by one individual to another while receiving nothing, or less than full value, in return. The tax applies whether the donor intends the transfer to be a gift or not.

“Unified” Scheme

- Federal and Connecticut gift tax and estate tax are integrated into one unified tax system

Connecticut

- All gifts by Connecticut residents
 - Defined as transfers by gift that are included as taxable gifts for purposes of United States gift tax made on and after 1/1/2005
- Exceptions:
 - Out of state real property
 - Out of state tangible personal property
- Gifts by nonresidents of:
 - Connecticut real property
 - Connecticut tangible personal property

Connecticut (cont'd)

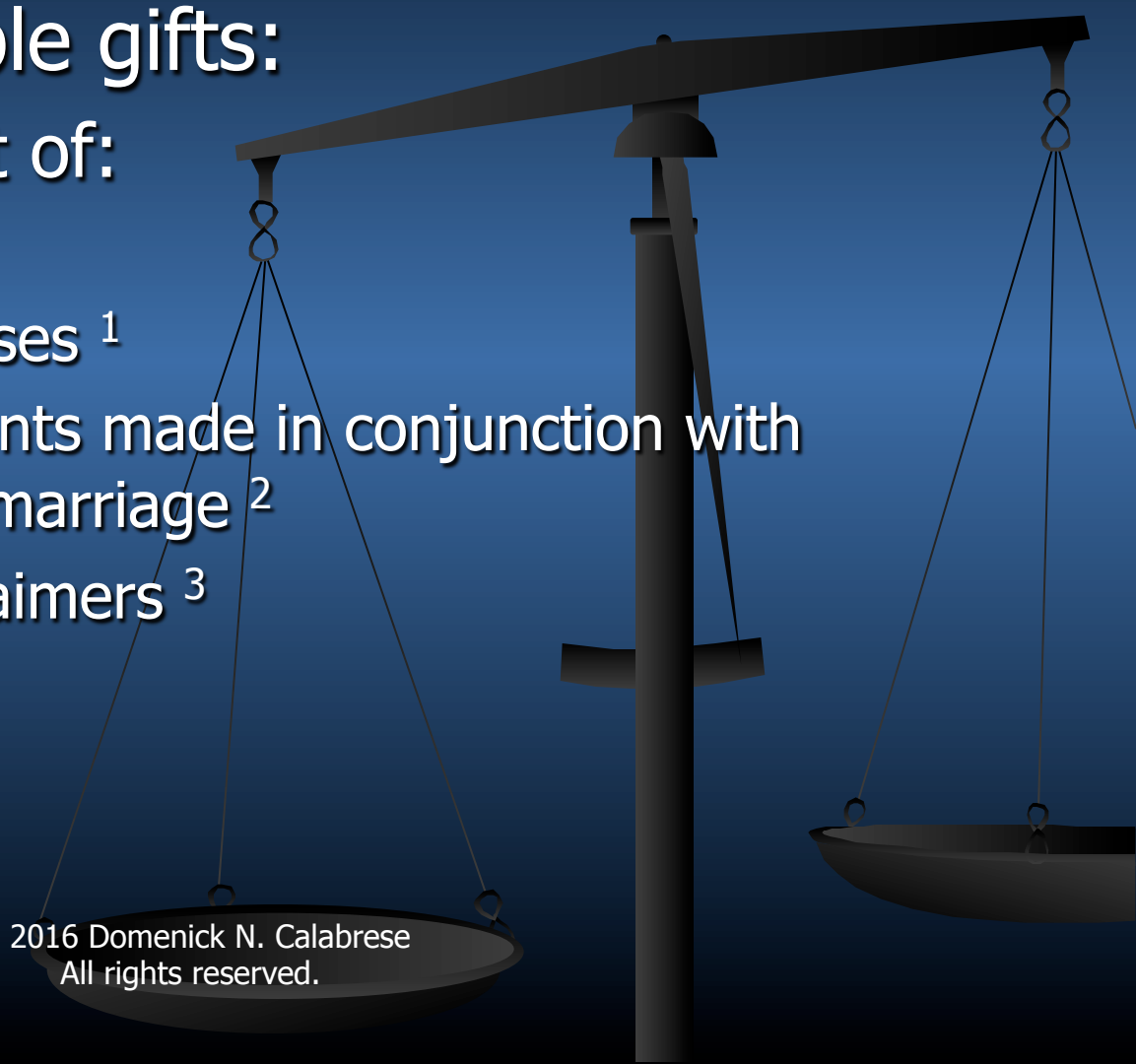
- Federal deductions under IRC §§ 2522 and 2524 are allowed
 - Includes annual exclusion for gifts of present interest in property (\$14,000 in 2014)
 - Charitable deductions
 - Unlimited marital deduction for U.S. citizen spouses

Connecticut (cont'd)

- Other nontaxable gifts:
 - Direct payment of:
 - Tuition ¹
 - Medical expenses ¹
 - Certain payments made in conjunction with dissolution of marriage ²
 - Qualified disclaimers ³

1. U.S.C.A. §2503(e)
2. U.S.C.A. §2516
3. U.S.C.A. §2518

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Annual Exclusions

- 2014: \$14,000 per individual (federal & Connecticut)
- Amount may change as frequently as annually

Deductions

- Gift to spouse (spouse must be a U.S. citizen)
- Gift to charity


Valuation



- Fair market value as of date of gift
- Caveat – if donor retains an interest in a gift to a family member, special valuation rules may apply
 - For example, the value of the retained interest may not be deducted from the fair market value of the gift for gift tax calculation purposes

Filing

- IRS Form 709
- CT 706/709



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2013 GIFT TAX RATES

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Connecticut

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2016 Federal Gift Tax Rate Table

Column A	Column B	Column C	Column D
Taxable amount over	Taxable amount not over—	Tax on amount in Column A	Rate of tax on excess over amount in Column A
-----	\$10,000	-----	18%
\$10,000	20,000	\$1,800	20%
20,000	40,000	3,800	22%
40,000	60,000	8,200	24%
60,000	80,000	13,000	26%
80,000	100,000	18,200	28%
100,000	150,000	23,800	30%
150,000	250,000	38,800	32%
250,000	500,000	70,800	34%
500,000	750,000	155,800	37%
750,000	1,000,000	248,300	39%
1,000,000	-----	345,800	40%

Annual Gift Tax Exclusion

- 2016:
 - Federal: \$14,000
 - Connecticut: \$10,000



Example ¹

During calendar year 2014, Mary conveys title to her house to her three children and either retains a life use for herself on the deed or does not retain a life use for herself on the deed but continues to occupy the residence. Mary does not receive any money or other type of consideration for the house from her children. Mary has made a gift of a future interest to her children. Because this is a gift of a future interest to her lineal descendants, it is subject to the special valuation rules (IRC §§2702 et seq.). The value of Mary's gift determined under the special valuation rules is the property's fair market value (less encumbrances). Because this is a gift of a future interest, annual exclusions do not apply.

1. 2014 Form CT-706/709 Connecticut Estate and Gift Tax Return and Instructions.

<http://www.ct.gov/drs/lib/drs/forms/2014forms/estateandgifttax/2014-ct-706-709-booklet.pdf> accessed 10/13/14

Probate Fees



Probate Fees

For decedents dying on or after 1/1/2015
and before 7/1/2016

<u>Of Fees</u>	<u>Total Fee</u>
0 to \$500	\$25
\$501 to \$1,000	\$50
\$1,000 to \$10,000	\$50, plus 1% of all in excess of \$1,000
\$10,000 to \$500,000	\$150, plus .35% of all in excess of \$10,000
\$500,000 to \$2,000,000	\$1,865, plus .25% of all in excess of \$500,000
\$2,000,000 and over	\$5,615 plus .5% of all in excess of \$2,000,000

Probate Fees

For decedents dying on or after 7/1/16

Value of Estate	Fee
\$0 to \$500	\$25.00
\$500 to \$1,000	\$50.00
\$1,000 to \$10,000	\$50.00 plus .01 of all in excess of \$1,000
\$10,000 to \$500,000	\$150.00 plus .0035 of all in excess of \$10,000
\$500,000 to \$2,000,000	\$1,865.00 plus .0025 of all in excess of \$500,000
\$2,000,000 to \$8,877,000	\$5,615, plus .005 of all in excess of \$2,000,000
Over \$8,877,000	\$40,000