

# Estate Planning & Settlement Newsletter

TAX AND ESTATE PLANNING UPDATE

JANUARY 2025

## 2025 FEDERAL AND CONNECTICUT ESTATE TAX AND GIFT TAX

The federal estate tax exemption for 2025 is \$13,990,000, an increase of \$380,000 from 2024. 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 \$27,980,000 in 2025 because 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 is also \$13,990,000, an increase of \$380,000 from 2024. The Connecticut exemption will continue to match the federal estate tax exemption for the foreseeable future. Connecticut currently 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 exclusion for 2025 is \$19,000, an increase of \$1,000 from 2024. Generally, each person may give up to \$19,000 per recipient, and, for married couples, one spouse may give up to \$38,000 per recipient if the spouse files a gift tax return and the other spouse consents to "split gifts" on that gift tax return. Certain non-reportable gifts avoid tax without using the annual exclusion or the lifetime exemption. Non-reportable gifts include tuition payments made directly to qualifying educational institutions and medical payments made directly to healthcare providers. Gifts exceeding the annual exclusion require the filing of a gift tax return but incur no federal or Connecticut gift tax until cumulative excess gifts reach the lifetime exemption of \$13,990,000.

## FUTURE CHANGES TO THE FEDERAL ESTATE AND GIFT TAX

Federal tax legislation enacted in 2017 temporarily increased the estate tax exemption until 2026. Unless Congress extends the law or makes it permanent, the exemption will be reduced to \$5 million (indexed for inflation) on January 1, 2026. With Republicans controlling the House, the Senate and the White House after the recent election, the increased federal estate tax exemption may be extended beyond 2025 if new tax legislation is introduced. Please contact the Reid and Riege attorney with whom you work if you would like to discuss the impact future changes to the estate and gift tax laws may have to your particular circumstances.

## REQUIRED MINIMUM DISTRIBUTIONS FOR INHERITED RETIREMENT ACCOUNTS

In July of last year, the IRS issued the long-awaited final regulations regarding required minimum distributions ("RMDs") for inherited retirement accounts. These final regulations took effect on January 1, 2025.

Under the SECURE Act, most retirement accounts inherited after January 1, 2020, by someone other than a surviving spouse have to be distributed within a ten-year period. The final regulations make clear that if the original owner of the retirement

account died on or after the date on which the owner was required to start taking RMDs, the beneficiary will also be required to take RMDs during the ten-year period. If the original owner of the retirement account died prior to commencing RMDs or if the retirement account was a Roth account, the beneficiary will not be obligated to take a distribution from the account until the tenth year, at which point the entire account will need to be distributed by the end of the calendar year. For tax-deferred retirement accounts such as traditional IRAs, it may make sense to take distributions from the account prior to the tenth year, even if it is not required, to spread the income tax liability over several years.

The IRS has granted transitional relief for failure to take RMDs from inherited retirement accounts for 2021, 2022, 2023, and 2024. If you are the beneficiary of an inherited IRA that is subject to the new rule requiring RMDs during the ten-year period, and you did not take an RMD in any or all of those years, the IRS will not impose an excise tax for failure to take the RMDs. Further, there is no obligation to make up any missed RMDs for those four years. However, you must commence taking RMDs in 2025 and distribute the entire account by the end of the tenth year following the original owner's death.

### CORPORATE TRANSPARENCY ACT

A recent federal law referred to as the Corporate Transparency Act requires certain business entities, including many corporations and limited liability companies (LLCs), to report information regarding certain of their owners, and other individuals exercising "substantial control" over them, to the Financial Crimes Enforcement Network (FinCEN). This sweeping law even applies to entities that are not operating businesses and do not generate any income, such as LLCs that hold vacation homes. The Act imposes significant fines and penalties for failure to make the requisite filings.

There is ongoing litigation in the federal court system challenging the constitutionality of the law. Reid and Riege's corporate attorneys will be monitoring the status of the law and will issue client alerts as appropriate. To be added to the e-mail distribution list for these alerts, please send an e-mail to [info@reidandriege.com](mailto:info@reidandriege.com). Future alerts regarding the Act will also be posted on the firm's website under News, Newsletters & Client Alerts.

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Readers are urged not to act on this information without consultation with their counsel. 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. We carefully customize estate plans to our clients' individual circumstances and personal objectives.

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