



Estate Tax Update

JANUARY 2010

Estate Tax Uncertainty

Estate planning professionals had expected legislative action by the end of 2009, at both the federal and state levels, to establish clear and settled rules concerning the federal and Connecticut estate tax laws. Instead, those laws in effect as of January 1, 2010 have created confusion and uncertainty.

Federal Taxes

As of January 1, 2010, the federal estate tax and generation-skipping transfer tax were repealed for one year, while the federal gift tax remained in effect with the \$1,000,000 exemption but with a lower top tax rate of 35 percent. Congress is likely to reinstate these taxes in 2010, but the specifics of any such legislation are uncertain. Will the federal estate and generation-skipping transfer tax exemptions and tax rates return to their 2009 levels of \$3,500,000 and 45 percent, respectively? Will the effective date of such reinstatement be retroactive to January 1, 2010, or a later date?

In the meantime, absent Congressional action, there will be no federal estate tax or generation-skipping transfer tax imposed on estates of decedents dying in 2010, but there also is no automatic step-up in basis for those decedents' assets. Instead, their assets are subject to complicated carryover basis rules.

To further complicate matters, if Congress fails to take any action this year, as of January 1, 2011, the federal estate, gift and generation-skipping transfer tax laws will revert to those in effect as of 2001, which provide for exemptions of only \$1,000,000 and top tax rates of 55 percent.

Connecticut Taxes

As of January 1, 2010, the combined Connecticut estate and gift tax exemption was increased from \$2,000,000 to \$3,500,000. In late 2009, in an attempt to address Connecticut's deficit issues, the state legislature passed a bill that would have deferred the exemption increase for two years. Governor Rell vetoed that bill, but it is uncertain whether the state legislature has sufficient votes to override that veto or sufficient support to otherwise revise Connecticut's estate and gift tax rules.

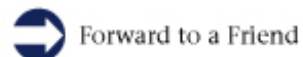
Summary

In light of the current uncertainty in both the federal and Connecticut estate tax laws, your estate plan may yield results different from those you intended when you established that plan. You should contact your attorney or tax advisor to review how these laws may impact your overall estate plan.

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