DAVIDSON, DAWSON & CLARK LLP
COUNSELLORS AT LAW

60 East 42nd Street
New York, NY 10165
212.557.7700
Fax 212.286.8513
www.davidsondawson.com

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Dear Friends of DD&C:

Relatively speaking, 2014 was a quiet year on the probate and estate tax front. While New York introduced major changes to its estate tax laws early last year, Connecticut did not, and there was no legislation that significantly affected the federal estate and gift tax system. Nonetheless, clients may want to consider the following:

Federal Transfer Tax Exemption Amounts

The exemptions under the federal estate, gift and generation-skipping transfer taxes are now adjusted annually for inflation. For 2015, all three are $5,430,000, an increase of $90,000 from last year. The annual gift tax exclusion remains at $14,000 per donee, or $28,000 per donee for married couples who elect gift-splitting. The special annual exclusion for gifts to a non-U.S. citizen spouse is $147,000 for 2015, a $2,000 increase from the 2014 level.

New York State Estate Tax Changes

New York made significant amendments to its estate tax laws, including a provision that increases the New York estate tax exemption in stages, until it matches the federal estate tax exemption in 2019. Currently, the exemption is $2,062,500, and it will rise to $3,125,000 on April 1, 2015. Clients with Wills that leave the exemption amount to specific beneficiaries, or which leave that amount in trust and the balance of the estate outright to the spouse, should consider how the exemption increases will affect the disposition of their estates.

Other important changes made by the 2014 legislation were discussed in more detail in our 2014 DD&C New York Client Estate Planning Letter dated June 15, 2014. That letter remains available on request. One can also find it by going to our firm's website (www.davidsondawson.com) and clicking on the "Client Memoranda" tab.

Connecticut Estate and Gift Tax Developments

In 2014, several technical changes were made to the Connecticut estate tax statutes, one of which eliminated the unfair imposition of both estate and gift tax on certain lifetime transfers. Unfortunately, the exemption amount under both taxes remains at $2,000,000, with no future inflation adjustments or other increases scheduled at this time. The Connecticut annual gift tax exclusion amounts, however, are set at the same level as the federal annual gift tax exclusions, meaning that any future increases to those federal exclusions will also apply for Connecticut purposes.

Continued Low Interest Rate Environment

Certain estate tax saving techniques, such as grantor retained annuity trusts (known as "GRATs") and intra-family loans, are especially effective when interest rates are low. Most of these techniques are not treated as gifts for tax purposes, since there is deemed to be an equal exchange of property between the parties. Low interest rates reduce the amount that must be paid back to the senior generation to avoid a gift, though actual returns on the property received by the junior generation determine if wealth is effectively transferred to them.

The rates the IRS uses to analyze these transactions have risen from their all-time lows in early 2013, but they remain very favorable by historical standards. The IRS adjusts interest rate assumptions monthly. Therefore, the best time to act is before rates rise too far.

The Importance of Regular Estate Plan Reviews

The relative stability of the estate tax laws makes this a good time to create an estate plan or update a plan done more than three years ago. Sometimes the need to update a plan is obvious, such as when there is a change in marital status or the size or composition of one's estate. If nothing else, the simple passage of time will make some issues less important and others significantly more critical (e.g., the need to plan for one's potential future incapacity).

Possible Future Changes to the Tax Code

In his recent State of the Union address, President Obama proposed a number of changes to the tax code, including one that would affect the income tax treatment of inherited property. It is unclear which, if any, of these proposals will be enacted, but rest assured that we will carefully monitor developments in this area.

We hope you found this letter helpful and informative. As always, please contact your DD&C attorney to discuss any questions you have regarding these recent developments or your estate plan in general.

Sincerely,

DAVIDSON, DAWSON & CLARK LLP