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2025 CLIENT ALERT

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Best wishes for a happy and healthy start to 2025! This year promises to be an eventful year from a tax perspective. It has already been eventful here at Blair & Potts. On January 1, 2025, Courtney Stewart Dutt and Brendan Buschman were elevated to Partners at the firm. Congratulations to Courtney and Brendan on this well-deserved honor.

Current State of Federal Tax Laws

As we have mentioned in past publications, The Tax Cuts and Jobs Act ("TCJA") passed in 2017 contained a sunset provision. Absent legislation, many of the provisions of the TCJA will "sunset" on December 31, 2025, and will revert to the tax laws that existed on December 31, 2017. In particular, the TCJA reduced the marginal income tax rates for individual taxpayers, doubled the standard deduction, doubled the childcare tax credit and doubled the exemptions for the federal gift, estate and generation-skipping transfer taxes. The TCJA also reduced the number of taxpayers subject to the alternative minimum tax, limited the deduction for state and local income and real estate taxes, (the "SALT" deduction) to $10,000 and eliminated the deduction for alimony payments.

President Trump and Congress have expressed their support to continuing many of the provisions of the TCJA, with some potential modifications to the SALT deduction, taxability of Social Security payments and taxation of tip and overtime income. Passing tax legislation will be high on their "to do" list, but may prove challenging given the narrow Republican majorities. As always, we will update you on any tax changes.

It is very likely that any new tax legislation will also have a sunset provision, and any changes will be temporary. Therefore, the uncertainty that currently exists in our tax laws will be with us for the foreseeable future. From a transfer tax perspective, it may be possible that the higher federal exemptions could decline in the future. As a result, discussions regarding the creation and implementation of a gifting program should continue.

While the tea leaves would indicate that an extension of the TCJA will occur during 2025, no one can be certain of what will happen in Washington, D.C. Therefore, clients may wish to consider creating irrevocable trusts, such as a Family Trust or Spousal Lifetime Access Trust, which would be the recipient of any taxable gifts. You would then make a smaller taxable gift to the trust as soon as practicable. In this way, as the end of 2025 approaches and new legislation does not seem likely, you will have the structures in place to take advantage of the higher federal estate and gift tax exemptions.

Inflation Adjustments

Federal exemptions, contribution limitations, etc. are adjusted each year to reflect inflation.
Below are some of the adjusted amounts for 2025:

	2024	2025
Federal Estate, Gift and GST-tax exemption	$13,610,000	$13,990,000
Federal Annual gift tax exclusion	$18,000	$19,000
401(k), Roth 401(k), 403(b) contribution limit Catch up (50 and over)	$23,000 $7,500	$23,500 $7,500
IRA and Roth IRA contribution limit Catch up (50 and over)	$7,000 $1,000	$7,000 $1,000
Health Savings Account Contribution Family Individual Catch up (55 and over)	 $8,150 $4,150 $1,000	 $8,550 $4,300 $1,000
Qualified Charitable Distribution ("QCD") from IRA	$105,000	$108,000

Connecticut Estate Tax and Law Update

Estate and Gift Tax Exemptions. The 2025 Connecticut gift and estate tax exemption is equal to the federal exemption of $13,990,000. Therefore, many Connecticut clients can make significant taxable gifts without the payment of either a federal or a Connecticut gift tax. Please note that any future reduction in the federal estate and gift tax exemption may lead to a reduction in the Connecticut exemption as well.

Connecticut Uniform Decanting Act. The Connecticut Uniform Decanting Act ("CUDA") became effective on January 1, 2025, and is the most recent step that the State of Connecticut has taken in making its trust laws more flexible. CUDA provides clients with the ability to "decant" an irrevocable Connecticut trust into a new trust with more favorable terms. While CUDA has several requirements and limitations, it does provide clients with added flexibility when administering a Connecticut trust.

Domicile. The recent Connecticut Superior Court case of Daniels v. Commissioner shed new light on when a person would be considered domiciled in Connecticut at his or her death. A decedent's domicile will determine whether he or she will be subject to a state's estate tax laws. While Connecticut is one of several states that imposes an estate tax, other states (such as Florida, North Carolina, South Carolina, Georgia, New Hampshire and Delaware, among others) do not. Therefore, the determination of domicile can have a major impact on a client's potential estate tax liabilities.

The Daniels court holding provides, among other things, that while performing administrative or ministerial tasks (such as changing business/mailing address, driver's license, voter registration, maintaining local bank accounts, and executing estate planning documents declaring new domicile), are important, they are not determinative. Instead, the Court focused on where the decedent spent his most valuable and limited resource: his time.

Under the facts of Daniels, the decedent kept similar homes (of size and value) in Arizona, Connecticut and Florida. For many years prior to his death, Mr. Daniels consistently spent 5.5 months in Connecticut, 3.5 months in Florida and 3 months in Arizona. Under these facts, the Connecticut Superior Court determined that for several years prior to his death, Mr. Daniels established a "consistent, long term decision to spend more time in Connecticut than any other state" and held that the Executor did not meet its burden that Mr. Daniels changed his domicile to Florida.

While nothing in the Daniels decision is surprising, and is currently under appeal, the Court emphasized that where you spend your time will be the most important factor in determining domicile. Therefore, if you intend to change your domicile, you must be willing to be physically present in the new state for as much of the year as is practicable and to have a clear pattern of behavior which demonstrates the establishment of a new domicile and the abandonment of an old one.

New York Estate Tax

The New York estate tax exemption for 2025 is $7,160,000. The New York estate tax is what is commonly referred to as a "cliff tax." If the value of your taxable estate exceeds the New York estate tax exemption by 5%, all of your assets, not just the assets above the New York exemption, would be subject to the New York estate tax.

While New York imposes an estate tax, it does not have a gift tax. Therefore, if you are a New York resident, making taxable gifts can reduce your New York estate tax liability. Please note that you must survive three (3) years from the date of the gift for it to be excluded from your New York estate.

Other State Estate Tax Exemptions

Below are the 2025 exemptions for other states which impose an estate tax:

Taxing Jurisdiction	2025 Exemption
District of Columbia	$4,873,200
Hawaii	$5,490,000
Illinois	$4,000,000
Maine	$6,800,000
Maryland	$5,000,000
Massachusetts	$2,000,000
Minnesota	$3,000,000
Oregon	$1,000,000
Rhode Island	$1,802,431
Vermont	$5,000,000
Washington	$2,193,000

A word of caution to clients who are domiciled in a state which does not have an estate tax, but own a second home or property in a state which does: you may be subject to the state estate tax even if the value of the property is less than the applicable exemption for such state. However, with proper planning such taxes can be avoided or minimized.

Minimum Required Distributions from Inherited IRAs.

The Secure Act (originally passed in 2019 and amended in 2022) contained major changes to the rules applicable to distributions from an Inherited IRA. Prior to 2019, if the decedent had attained retirement age, a non-spouse beneficiary had the ability to stretch the receipt of an inherited IRA over his or her lifetime. The Secure Act changed this general rule to require that most non-spouse beneficiaries must receive the entire balance of the Inherited IRA within 10 years of the deceased owner's death. There are exceptions to this general rule for minor beneficiaries or disabled beneficiaries.

When passed, the Secure Act did not require that any distributions be received from the Inherited IRA during the 10 year period. In 2022, the United States Treasury issued proposed regulations which required that a beneficiary of an Inherited IRA receive a required minimum distribution ("RMD") each year until the balance of the account is withdrawn. Many tax professionals did not agree with the Treasury's interpretation, and, in response, the Internal Revenue Service suspended RMDs for Inherited IRAs through 2024.

On July 19, 2024, the Treasury issued final regulations which provide that, starting in 2025, most beneficiaries must receive a RMD from an Inherited IRA each year. The RMD is calculated based on the life expectancy of the beneficiary and the balance of the Inherited IRA as of the end of the previous tax year. For clients over 70½, they can make QCDs from the Inherited IRA (subject to the annual contribution limitation).

Corporate Transparency Act ("CTA")

The CTA was passed on January 1, 2021, and imposed certain filing requirements for most corporations, partnerships, limited partnerships and limited liability companies ("Reporting Entity"). For a company formed prior to January 1, 2024, the CTA required the Reporting Entity to file a Beneficial Ownership Interest Report ("BOI") on or before January 1, 2025. The BOI would list any person or entity which owns or controls 25% of the Reporting Entity. However, in December 2024 a federal court issued an injunction which has suspended, for the time being, the filing requirements of the CTA.

We will continue to update you with respect to any changes related to the federal tax laws or filing requirements of the CTA. In the meantime, please contact us if you would like to discuss any of the topics raised in this Advisory.