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New York State Estate Tax Alert – April 1, 2014

Dear Clients:

As part of our ongoing tax watch service, we are informing you of the recent and significant changes in the New York Estate Tax rules passed by the New York State Legislature and effective as of April 1, 2014. This legislation is very complex and will require you to carefully review your Estate Tax planning.

The New York State Estate Tax: New York State no longer has an Estate Tax Exemption. As of April 1, 2014, there is an 'exclusion' amount of \$2,062,500 which is scheduled to increase each year by approximately \$1 million until 2017 when the exclusion amount will be \$5.25 million. As of January 1, 2019 the exclusion amount will match the Federal Exemption that year going forward.

<u>For date of death as of:</u>	<u>New York State exclusion amount</u>
April 1, 2014 and before April 1, 2015	\$2,062,500
April 1, 2015 and before April 1, 2016	\$3,125,000
April 1, 2016 and before April 1, 2017	\$4,187,500
April 1, 2017 and before January 1, 2019	\$5,250,000
After January 1, 2019	\$5,900,000 (projected)

The most significant change in the law is that for estates in excess of 105% of the 'exclusion amount' there will be a New York State Estate Tax based on the entire gross estate. This is becoming known as the 'New York Estate Tax Cliff.' For example, assume you die on July 1, 2014 with an Estate valued at \$2.17 million. The exclusion amount is \$2,062,500 but the value of your Estate (in this example) is in excess of the 105% threshold so the entire \$2.17 million is taxed. There is no exclusion, or any exemption applied. The formula to calculate the actual tax is complicated but the result is actually a higher tax than if this same Estate were subject to the prior New York exemption of \$1 million. The top tax rate remains 16%.

Lifetime 'gifts' made within three (3) years of death: The value of any gifts made on or after April 1, 2014 and before January 1, 2019 (while the donor was a New York resident) will be 'clawed' back into the value of the gross Estate for New York State Estate Tax purposes.

Generation-Skipping Transfer Tax: New York has repealed the Generation Skipping Transfer Tax.

The New York Estate Tax versus the Federal Estate Tax: The rules are vastly different. Many people have assumed New York has changed its rules to correlate to the Federal Estate Tax program but this is incorrect. Among many important differences, New York continues to offer no 'portability' of any unused exclusion amount (there is no longer an exemption) after the first spouse dies.

It is more imperative than ever for New York residents to carefully plan their Estates. Please contact our office to schedule a complimentary meeting to discuss how this new Legislation impacts your estate planning and what changes (if any) are appropriate.