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The Connecticut Estate Tax

Birds are not the only ones migrating south...

Connecticut residents are joining our feathered friends and opting for full time residency in states like Florida in order to avoid Connecticut's estate tax. Much ado about nothing? Not according to a recent report produced by the Connecticut Department of Revenue Services in February of 2008 (the, "Report"). The Report was generated in response to a legislative request to conduct a study of the Connecticut estate tax and included a study on Connecticut household migration patterns from 2002 until 2006. According to the Report, a total of 175,700 households left Connecticut during that four-year period, and 27,773 of those households changed domicile from Connecticut to Florida. In an effort to explain that migration, practitioners in the legal, accounting and estate planning fields were asked to complete surveys based on their client activity. Based on responses from those practitioners, 52.6% said that their Connecticut clients have changed domicile to Florida based primarily on avoiding the Connecticut estate tax. Another 24.3% reported that their clients changed domicile partially due to the Connecticut estate tax. Understandably, states like Florida, Nevada, Arizona and California provide attractive alternatives to colder than average winters, high rainfall and Connecticut estate taxes. Currently, none of those states impose an estate tax and Florida does not have a state, estate or income tax.

What's at Stake?

If you own over \$2 million, quite a bit. The current Connecticut estate tax rates range from 5% to 16% depending on the size of the estate. An estate that exceeds \$2 million will be taxed on the entire estate, including the first \$2 million. For example, a Connecticut resident who dies with an estate greater than \$10 million would pay over \$600,000 in additional estate tax for the privilege of dying in Connecticut, reducing any inheritance to his or her family considerably.¹ Non-residents who own real or personal property in Connecticut are also subject to its estate tax. Many residents are opting for their own method of planning by migrating to states like Florida. According to the Report, Connecticut residents are flocking south in growing numbers.

¹ This calculation takes into consideration that the taxpayer is allowed a deduction for the state estate tax due to Connecticut on his federal estate tax return, thereby reducing the amount subject to federal estate tax.

Who is Losing Out?

A considerable amount of wealth is leaving Connecticut to be spent in other states. With that migration, Connecticut suffers a loss of consumerism, our communities and schools lose additional tax dollars and the state suffers an economic loss. During the four-year study period, Connecticut had a net loss of more than \$1.2 billion in adjusted gross income due to migration of its residents to other states. Connecticut's limited growth in employment, personal income, gross state product and population was below the national average and significantly lower than those states that do not impose an estate

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tax. While not conclusive, the data compiled in the Report suggests a correlation between Connecticut's estate tax and its struggling economy. With such an impact on the Connecticut economy, readers may wonder why Connecticut still has an estate tax. A key reason, of course, is revenue. The Connecticut estate tax brought in over \$150 million of revenue in the 2006-2007 fiscal year. Determining whether that revenue outweighs the loss of consumer spending continues to be debated. There have been efforts to have the Connecticut estate tax repealed, but those efforts have not been successful. In 2006, Governor Rell proposed a plan to phase out the Connecticut estate tax, but the plan was met with skepticism and claims of class bias. It is important to note that in addition to an economic loss, this migration also results in a more human loss. Connecticut is losing a good portion of its volunteer base, seasoned town leaders and vital members of local communities.

The Future

Only time will tell whether the rate of migration of Connecticut residents seeking shelter from the state estate tax will continue in the coming years. Based on the numbers in the Report, some argue that unless changes to the Connecticut estate tax are made soon, we stand to lose even more of our residents to states with warmer climates and less punitive

tax structures in the next five years. Proponents for the repeal of the estate tax stress that Connecticut has made tax changes to attract businesses, industry leaders and even movie production companies to Connecticut, and that it seems equally important to keep our residents here by working toward eliminating the Connecticut estate tax. Perhaps the legislature will find a way to soften the estate tax blow without affecting state revenue. In the meantime, make sure you are doing all you can to reduce your federal estate tax, which will also lower your Connecticut estate tax. Talk to your financial planner and estate planning professional to discuss your options before you consider joining the migration south in order to escape the Connecticut estate tax. After all, Connecticut has a lot to offer and so do its residents.

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