REID & RIEGE
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Estate Planning & Settlement Newsletter

TAX AND ESTATE PLANNING UPDATE | **MARCH 2026**

2026 FEDERAL AND CONNECTICUT ESTATE TAX AND GIFT TAX

The federal estate tax exemption for 2026 is $15,000,000, an increase of $1,010,000 from 2025. If a decedent's taxable estate exceeds this amount, the excess will be taxed at a flat rate of 40%. For married couples, the exemption can total $30,000,000 in 2026 because the surviving spouse can file a federal estate tax return to elect "portability" to transfer any unused portion of the deceased spouse's exemption to the surviving spouse.

As a result of federal legislation enacted in 2025, the federal estate tax exemption has been set at $15,000,000 on a "permanent" basis and will be indexed for inflation starting in 2027. Nevertheless, a future Congress could lower the exemption or change the rate of tax.

The Connecticut estate tax exemption for 2026 is also $15,000,000. Under current law, the Connecticut exemption will continue to match the federal estate tax exemption. Connecticut currently does not offer the portability election. If a decedent's taxable estate exceeds the exemption amount, the excess is taxed at a flat rate of 12%. The Connecticut estate tax is deductible for federal estate tax purposes, which reduces the effective rate of the Connecticut estate tax by 40%.

The federal and Connecticut gift tax annual exclusion for 2026 remains at $19,000. Each person may give up to $19,000 per individual recipient without the need to file a gift tax return. Certain non-reportable gifts avoid tax without using the annual exclusion or the lifetime exemption. Non-reportable gifts include tuition payments made directly to qualifying educational institutions and medical payments made directly to healthcare providers. Gifts exceeding the annual exclusion require the filing of a gift tax return but incur no federal or Connecticut gift tax until cumulative excess gifts reach the lifetime exemption of $15,000,000.

ESTATE TAX EXEMPTIONS IN NEIGHBORING STATES

While the Connecticut estate tax exemption currently matches the federal estate tax exemption, state estate tax exemptions in neighboring states vary widely. Massachusetts has an estate tax exemption of $2,000,000. The Rhode Island estate tax exemption is $1,838,056 in 2026. The New York estate tax exemption is $7,350,000 in 2026. Connecticut residents who own real estate or tangible personal property located in another state could be subject to estate tax in another state in which they own property. If you have acquired out-of-state property since you last reviewed your estate plan, consider contacting the Reid and Riege attorney with whom you regularly work.

HOW TO CHOOSE TRUSTEES

The estate planning process often includes the selection of a suitable person or entity to serve as trustee of a trust. This decision determines who will control the trust's assets, often for many years. A trustee's actions will directly affect the wellbeing of the trust beneficiaries and the long-term success of the estate plan. This important decision should be approached with care.

INDIVIDUAL VS. PROFESSIONAL TRUSTEES

Under Connecticut law, a trustee can be an individual or an institution with trust powers. Professional trustees typically include individual professionals, such as attorneys and accountants who routinely serve as trustees, or corporate trustees such as banks, trust companies, and brokerage firms with affiliated trust departments.

Individual trustees, such as friends, business partners and family members, may offer personal insight and familiarity with your family dynamics and busines interests, which can be valuable in carrying out your wishes. Professional trustees, by contrast, can provide neutrality, institutional continuity, and specialized expertise, and are often more familiar with managing complex assets and adhering to strict fiduciary standards. While the services of professional trustees typically cost more, Connecticut trust law entitles all trustees to reasonable compensation. Each option has advantages and potential drawbacks, making it important to match the trustee type to your needs. Furthermore, you should confirm your prospective trustee is willing and able to accept the commitment.

TRUSTEE DUTIES

While a thorough exploration of a trustee's responsibilities is beyond the scope of this newsletter, it is essential to understand the fundamentals of a trustee's job. Trustees must manage and safeguard trust assets, keep accurate records, engage in tax-planning and file tax returns, communicate with beneficiaries, and follow the terms of the trust agreement. Trustees must invest prudently, avoid conflicts of interest, and defend the trust from lawsuits. A trustee must have sound judgment and remain impartial, while being loyal to the beneficiaries. In many cases, a trust agreement may empower the trustee with significant discretion, and the trustee is left to decide what distributions are appropriate after the client is no longer living. These obligations can be time-consuming and complex.

FACTORS TO CONSIDER

When selecting trustees, consider the complexity of your trust, the nature of your assets, and the needs of your beneficiaries. Ask yourself: Do the prospective trustees have the requisite financial capabilities and organizational skills, and are they willing to seek out expert advice when needed? Will they be able to serve and remain available to respond to changing circumstances? Do they have the temperament to handle family conflicts and sensitive interpersonal matters? Would multiple trustees spread the weight of responsibility or impede administration? Would they be reliable with their actions and communication? Would your beneficiaries respect the trustees, and would the trustees respect your beneficiaries?

Choosing trustees can play a significant part in preparing a comprehensive estate plan. If you would like help in analyzing the suitability of your choice of trustee, please contact the Reid and Riege attorney with whom you regularly work.

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John Paul Callahan
(860) 240-1069 • jcallahan@rrlawpc.com

Gina M. Geary
(860) 240-1023 • ggeary@rrlawpc.com

John R. Ivimey
(860) 240-1062 • jivimey@rrlawpc.com

Ingi-Mai Loorand
(203) 401-6146 • iloorand@rrlawpc.com

Katherine E. Mulry
(860) 240-1094 • kmulry@rrlawpc.com

Barbara A. Taylor
(860) 240-1033 • btaylor@rrlawpc.com

David L. Sullivan, CTFA*
Director of Trust & Wealth Management
(860) 240-1022 • dsullivan@rrlawpc.com
*David is a Certified Trust and Financial Advisor; he is not an attorney.

For other information regarding Reid and Riege, P.C., please visit our website at **www.rrlawpc.com** or contact us at:

Reid and Riege, P.C.
One Financial Plaza • Hartford, CT 06103

or

Reid and Riege, P.C.
234 Church Street • New Haven, CT 06510