



New York Estate Tax Law Sees Major Changes

By: Robert Thee

On April 1, 2014, Governor Cuomo signed into law the Executive Budget of 2014-2015. The legislation includes significant changes to the way estates of New York residents (and nonresidents owning tangible property in New York) are taxed.

Under prior law, which was effective for decedents dying before April 1, the tax was based on the old federal state death tax credit. The maximum rate was 16 percent, with an exemption of \$1 million (which effectively phased out at about \$1.1 million). There was no state gift tax, and no adjustment was required for lifetime gifts in computing the taxable estate.

The new law makes three significant changes:

- Although there is still no state gift tax, taxable gifts for federal purposes must be added to the New York taxable estate if made between April 1, 2014 and

December 31, 2018, and during the 3-year period ending on the date of death.

- The exemption is increased to \$2,062,500 and will increase by over \$1 million each year until 2019, when it will equal the federal exemption (projected to be approximately \$6 million.)
- When the taxable estate exceeds 105 percent of the exemption, it will be fully phased out. This is the most controversial part of the new law. Although the highest nominal rate remains at 16 percent, the accelerated exemption phase-out creates a "cliff", resulting in effective marginal rates of over 100 percent.

These dramatic changes may result in a win, loss or draw compared to the old regime, depending on the circumstances of each family. Proper planning is more important than ever.



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