

VIZZONI & COSTELLO, L.L.C.

www.vc-law.com

Attorneys At Law

WINTER 2004 UPDATE *HAPPY NEW YEAR!*

- **Federal Estate Tax Exemption Is Now \$1,500,000.** Effective January 1, 2004, the amount which each individual can pass to heirs free of Federal Estate Tax is \$1,500,000 (\$3,000,000 per married couple with proper planning). This is an increase of \$500,000 from the old threshold of \$1,000,000. However, the amount which each individual can transfer by gift during lifetime remains at \$1,000,000. Therefore, if you have made \$1,000,000 in taxable gifts (e.g., gifts that exceeded the annual gift tax exclusion, which is currently \$11,000 per donee, per year) any additional taxable gifts will generate a U.S. Gift Tax. This is the first year that the exemption amounts for Federal Estate Tax and Federal Gift Tax are no longer “unified.” The substantial increase in the Estate Tax Exemption may significantly impact the manner in which Wills should be drafted, *so please contact us to discuss the most tax-effective means of taking advantage of the additional Exemption.*
- **NJ Estate Tax Exemption Remains at \$675,000.** As we reported in our Summer 2002 Update, as part of an effort to raise tax dollars without committing political suicide (i.e., raising individual income taxes), the McGreevy administration recently pushed through significant changes to the New Jersey Estate Tax. Under the new law, an estate can be exempt from Federal Estate Tax, but still owe significant New Jersey Estate Tax. For example, an estate valued at \$1,500,000 (including life insurance proceeds) or less will not be subject to Federal Estate Tax, but would owe \$64,400 in New Jersey Estate Tax. An estate valued at \$1,000,000 would owe \$33,200 in New Jersey Estate Tax. Therefore, estate tax planning is still critical even where there is no Federal Estate Tax exposure. Planning is particular critical for married couples employing the “*Bypass Trust*” technique in their Wills in order to take full advantage of the Federal exemptions, as this may trigger the New Jersey Estate Tax at the first death. *All married couples who have not reviewed their estate plans recently should contact us to determine whether additional planning is required.*
- **Medicaid “Penalty Period” Shortened.** Individuals who divest themselves of assets in order to qualify for Medicaid incur a period during which they are ineligible for that program. The period of ineligibility is calculated by dividing the amount of the property transferred by a figure equal to what the NJ Division of Medical Assistance & Health Services determines to be the average monthly cost of care in a nursing home. That figure (the divisor) was recently increased, thus decreasing the period of ineligibility. *Therefore, those of you who have engaged in this type of planning should contact us to determine the new eligibility date.*