



Why We May Never See a Better Environment for Transferring Wealth

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It may seem that there will always be time to address estate planning. However, a unique opportunity to maximize the amount of wealth that can be tax-efficiently passed to heirs will expire at the end of 2025. Furthermore, legislation could curb lifetime exemption limits even sooner. The opportunity is even more pressing because the current market downturn represents an especially advantageous time to optimize your taxable estate before markets eventually recover.

In this article, we explain why 2023 is an ideal year to prioritize your wealth transfer plans.

Current Tax Laws Double Lifetime Giving Exemption

For affluent individuals and their families, estate taxes can represent one of their largest tax liabilities. IRS rules allow certain amounts of an estate to be transferred free of taxes to family and friends, on an annual basis (the limit is \$17,000 per person in 2023) and also grant each taxpayer a lifetime giving exemption. Beginning in 2010, that lifetime exemption was \$5 million per person indexed for inflation. The Tax Cuts and Jobs Act (TCJA) roughly doubled the giving limit, raising the lifetime exemption in 2023 to \$12.92 million for individuals and \$25.84 million for married couples.¹

The caveat—and it's a big one—is that those expanded exclusion amounts expire at the end of 2025, with lifetime exemption totals reverting back to an estimated \$6.40 million per person.² Individuals and families seeking to lower their taxable estate may not see such a generous opportunity from the government again, so it's critical to develop giving plans and put them into motion before it's too late.

A Note of Caution

The generation skipping transfer (GST) tax exemption may also come into play if gifts are given to grandchildren. Gifts to grandchildren and subsequent generations have GST tax considerations. The gift tax exemption and the GST tax exemption start off the same (at \$12.92M per individual) but can, and often, get used at different rates. If you have never used your gift tax exemption or GST tax exemption, you should be fine. However, you must be careful as a gift can result in both gift tax and GST tax being imposed on that gift.

Value of Gifting Today vs. Gifting in the Future

Failure to utilize the full expanded exclusion amount of \$12.92 million per individual prior to its lapse at the end of 2025 may result in the unused amount being subject to estate or gift tax. See the chart on the next page.

¹ IRS, "IRS provides tax inflation adjustments for tax year 2023," October 18, 2022

² Figure based on estimate of \$5 million exemption in 2010 indexed for inflation through 2025



Example assumes each client here is a married couple	Couple 1	Couple 2
Current value of the estate	\$50,000,000	\$50,000,000
Gifts over next three years (using full exemption available)	\$0	\$25,840,000
Value left in the estate at the end of 2025	\$50,000,000	\$24,160,000
Lifetime exemption available after sunset (2026 and beyond)	\$6,400,000	\$0
Gross estate tax due (assume estate tax rate of 40%)	\$17,440,000	\$9,664,000

Key takeaway: An additional \$7.78 million is paid in estate taxes by the couple who failed to utilize the expanded exclusion amount before it expires in 2025.

Customize Your Wealth Transfer Strategies

Effective wealth transfer can be accomplished in a number of ways and should be customized to your personal circumstances.

When considering how much wealth should be transferred for the benefit of your heirs, thoughtful consideration should be given to how much wealth you should retain in your estate to maintain your lifestyle. Difficult decisions must be made during the estate planning process that weigh current cash flow needs with estate tax savings and preservation of family legacy. A qualified estate planning professional can model various scenarios to help you determine the amount of gifting that is right for you.

The Clock Is Ticking ... Begin the Discussion Now

The window on making the most of the expanded lifetime exemption and shielding a significant portion of your estate from Uncle Sam will close at the end of 2025. We are available to answer many of your questions and help formulate a customized plan that allows you to not just gift your wealth, but gift it with a purpose.