



PLANNING WITH THE 2023 INCREASE IN ESTATE, GIFT, AND GST TAX EXEMPTION

The federal estate, gift, and GST tax exemption amounts are indexed annually for inflation and have increased from \$12,060,000 per individual in 2022 to \$12,920,000 per individual in 2023. The substantial increase provides planning opportunities for wealthy individuals who have already reached or are near the previous limits, as they will each gain an additional \$860,000 in exemption.

- ❑ **Additional Gifts.** For those who would like to make additional gifts during their lifetime, but have run out of exemption, the increase in 2023 provides a chance to transfer additional wealth. For a married couple, this would allow gifting of an additional \$1,720,000, which equals approximately \$688,000 in estate tax savings (at the current 40% tax rate, or more depending on how those assets grow or if the rate is increased in the future) when the exemptions are reduced (see below for explanation of the Sunset).
- ❑ **Not Too Late to Start Gifting.** For someone who has a taxable estate, it is not too late to start gifting. The increase will benefit those who have not yet taken steps to plan for federal estate and GST tax after their death.
- ❑ **Forgiveness of Intra-family Loans.** Individuals who have loaned family members money may consider forgiving some or all of the principal balance, which is considered a gift by the IRS. Forgiving loans to certain grantor trusts may also be worth considering.
- ❑ **Late Allocation of GST Exemption.** If a trust has any assets which are not completely GST exempt, a late allocation of the additional GST exemption for 2023 may be advisable.
- ❑ **Dynasty Trust Planning.** Transferring assets to a multi-generational trust can leverage the increased estate and GST exemptions for generations to come.
- ❑ **Spousal Lifetime Access Trusts.** Gifts to a properly drafted irrevocable trust can allow a spouse to maintain control of and access to the gifted assets, while providing an opportunity to freeze the value of the gifted assets for federal estate and GST tax purposes.
- ❑ **Sunset Provision in 2026.** The legislation that created these large exemption amounts is set to expire on December 31, 2025, with the exemption amounts being cut in half. As of January 1, 2026, the current \$10,000,000 (inflation adjusted as described above) exemption amounts will be reduced to \$5,000,000 (as adjusted for inflation at that time). While that gives taxpayers time to plan, it is unclear whether Congress will adjust these amounts before then, and the time-value leverage of moving the assets out of one's estate now versus in a year or two could result in a significant federal estate and GST tax savings.

Taxpayers who have accrued significant wealth can take advantage of the exemption adjustments for high inflation. It is imperative that such taxpayers consult with their attorneys and advisors to see if there are planning opportunities now, while the exemptions are still available and growing.