

Major Estate Tax Changes Under the One Big Beautiful Bill Act

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The **One Big Beautiful Bill Act (OBBBA)**, signed into law on **July 4, 2025**, is a sweeping piece of legislation spanning nearly 1,000 pages. It includes significant changes to federal estate and income tax laws that will affect estate planning. Here's an overview of a few key provisions in OBBBA and some strategic estate planning opportunities that it provides.

Estate and Gift Tax Exclusion Increased

Effective **January 1, 2026**, the federal **estate and gift tax exclusion** increases to **\$15 million per individual** (or **\$30 million per married couple**), with future adjustments for inflation. Although the increased exclusion was made “permanent” under the Act, it may still be changed or repealed by a future Congress or administration. High-net-worth clients should take full advantage of what may be a limited window for significant planning options.

Spousal Lifetime Access Trusts (**SLATs**) and Grantor Retained Annuity Trusts (**GRATs**) are excellent options for front-loading an estate plan while still allowing the client or spouse access to assets. Individuals who have already utilized all or a portion of their current exclusions should consider “topping off” their current estate plans with additional gifts.

While the increase in the federal exclusion amount provides substantial federal tax relief, **state-level estate and inheritance taxes still apply**, in many jurisdictions:

- **12 states** (Connecticut, Hawaii, Illinois, Maine, Maryland, Massachusetts, Minnesota, New York, Oregon, Rhode Island, Vermont, Washington) and **the District of Columbia** continue to impose an estate tax
- **Six states** (Iowa, Kentucky, Maryland, Nebraska, New Jersey, Pennsylvania) impose an **inheritance tax**
- **Connecticut** is the only state that also imposes a **gift tax**
- **New York** does not have a gift tax, but **adds back gifts** made within **three years of death** to the taxable estate

With proper planning, assets can still be transferred free of both federal and state-level transfer taxes, but state-specific rules must be carefully navigated. Spousal Lifetime Access Trusts (SLATs), Dynasty Trusts, and sales to intentionally defective grantor trusts offer excellent opportunities to both leverage and utilize the \$15 million federal gift tax exclusion while removing those assets from a state estate tax regime.

New York's Estate Tax “Cliff”

New York's estate tax has a particularly harsh feature known as the “**estate tax cliff.**” This means that estates just **slightly**

over the exclusion amount may lose the exclusion entirely and owe significant tax.

For example, in **2025**:

- A New York taxable estate of **\$7,160,000** will owe **no estate tax**
- A New York estate of **\$7,161,000** will owe **\$2,863** in tax
- A New York estate of **\$7,518,000** will owe **\$707,648**

This makes planning for residents of New York and similarly situated states especially important. New York State residents, and even non-resident individuals with substantial New York situs property, should consider making immediate and significant gifts designed to lower their New York taxable estates below the **cliff**. If they survive three years after the gift, the gifted property will be excluded from their New York taxable estate.

Generation-Skipping Transfer (GST) Tax Exemption

The federal **GST tax exemption** also increases to **\$15 million per individual** beginning **January 1, 2026**. This is particularly relevant for gifts or bequests made to **“skip persons”** (such as grandchildren) or to **trusts subject to GST tax**. Despite the increase, careful planning is still needed to make full use of this exemption.

Unlike the federal estate and gift tax exclusion, the increased GST tax exemption is not “portable” – meaning that unless both spouses’ GST exemptions are used during life, they may be forfeited at the first death. And like the federal estate and gift tax exclusion, the increased GST tax exemption is also subject to a potential repeal if the political winds change. For clients and their families focused on multi-generational planning, now is the time to “use it or lose it” by fully sheltering appreciating assets from the generation skipping tax in an irrevocable trust. Careful allocation of exemption is the key to maximizing tax efficiency and wealth for future generations.

SALT Deduction Cap Raised — But with Limits

Starting in **2025**, the cap on deductions for **state and local taxes (SALT)** increases from **\$10,000 to \$40,000**. This is especially beneficial for residents in high-tax states.

However, the increased cap **phases out** for high-income earners:

- For those with **modified adjusted gross income (MAGI)** between **\$500,000 and \$600,000**, the cap is reduced by **30%** of the excess MAGI
- The deduction is **completely phased out** for taxpayers with MAGI of **\$600,000 or more**

Unless extended, the cap will **revert to \$10,000 in 2030**.

Clients living in high-tax states should consider “stacking” multiple non-grantor trusts. Since each trust is treated as a separate taxpayer under the Internal Revenue Code, carefully drafted multiple trusts can potentially reallocate **MAGI** and shelter thousands of dollars in **SALT** deductions that could not otherwise be taken on an individual’s income tax return.

Changes to Charitable Giving Rules

OBBBA introduces new benefits and limitations for charitable giving:

- The 60% limitation for cash contributions to qualified charities is not “permanent”
- **Standard deduction filers** can now take an additional **\$1,000** charitable deduction (**\$2,000 for joint filers**)
- **Itemizers** are subject to a new **0.5% floor**, meaning charitable deductions are only allowed to the extent that total

contributions **exceed 0.5% of adjusted gross income (AGI)** before losses

To maximize deductibility, the new **0.5% floor** encourages consolidating charitable giving in a single tax year. For high-net-worth individuals, this is the perfect opportunity to fund or expand a private foundation. Donor-advised funds may also provide an option for maximizing charitable giving in a single year while providing flexibility in the choice of charities and the timing of distributions.

Final Thoughts

The OBBBA marks a significant shift in the tax landscape for estate planning. While some changes provide enhanced opportunities for wealth transfer and charitable giving, others introduce complexity and planning pitfalls — especially at the state level.