

Race to the Sunset: Critical Insights for Clients on Estate Tax Exemptions ending in 2025

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As we approach 2025, it is important to stay informed about the upcoming changes to federal estate and gift tax exemptions. Under the Tax Cuts and Jobs Act (TCJA) of 2017, the estate and gift tax exemptions were temporarily increased and are currently \$13.61 million per individual in 2024 (adjusted annually for inflation) and will go up to \$13.9 million in 2025. However, this law will expire at the end of 2025, potentially reverting the exemption to pre-TCJA levels. Understanding the impact of these changes and seeking guidance on tax mitigation and estate planning is crucial.

What is the Sunset Provision?

The TCJA's temporary increase in the federal estate tax exemption allows individuals to pass on up to \$13.61 million (adjusted for inflation) at death without incurring federal estate taxes and make up to \$13.61 million in lifetime gifts. Without further intervention from Congress, after December 31, 2025, this exemption is expected to revert to approximately \$5.49 million per individual, adjusted for inflation. Projections adjusted for inflation indicate this will amount to around \$6.5 million at the beginning of 2026. This will be a significant decrease from the \$13.9 million exemption amount allowed in 2025.

Implications for Estate Tax Liability

The reduced estate tax exemption could significantly impact estates valued above the lowered threshold. Estates exceeding the new exemption will be subject to higher federal estate taxes at a rate of up to 40%, reducing the inheritance that beneficiaries receive. This underscores the need for proactive estate planning to minimize future tax liabilities.

Strategic Estate Planning Ahead of 2025

With the sunset provision approaching, it's crucial for individuals to review and adjust their estate planning strategies. Key steps to consider include:

1. **Gifting Strategies:** Clients may want to take advantage of the higher exemption by making significant gifts to heirs or charitable organizations before 2025. This can reduce the size of their taxable estate and help avoid higher taxes later.
2. **Utilizing Irrevocable Trusts:** Establishing trusts is a powerful way to manage and protect assets while reducing estate taxes. Trusts offer flexibility in ensuring that assets are passed on in accordance with the wishes of a client and can help mitigate estate taxes.
3. **Updating Estate Plans:** Regularly reviewing and updating wills, trusts, and other estate planning documents is essential as tax laws evolve. Ensuring your estate plan is up to date with current laws and well-positioned to address the upcoming changes in 2025 is critical.
4. **Consulting Professionals:** Working with estate planning professionals, including attorneys and financial advisors,

provides valuable guidance on navigating these complex changes and strategies. Their expertise in tailoring estate plans to individual circumstances is key to successful tax and planning management.

Action Steps for Estate Planning in 2025

To prepare for the upcoming changes, consider taking these steps:

- **Schedule a Consultation:** Meet with your estate planning attorney, financial advisor, and accountants to discuss how the 2025 changes could impact your estate plan and assets.
- **Review and Update Estate Documents:** Ensure your will, trusts, and other documents align with current goals, and consult with your trusted advisors to ensure that your plan is compliant and efficient.
- **Explore Gifting Options:** Consider making substantial gifts before the estate and gift tax exemptions decrease to maximize tax benefits and minimize future liabilities.

As the 2025 sunset of estate and gift tax exemptions approaches, understanding the potential impact on your estate plan is crucial. By taking proactive steps to review your plan, explore gifting opportunities, and consult professionals, you can better navigate the complexities of estate tax planning and safeguard your assets for future generations. The sooner you consult with your estate planning attorney and financial advisors, the sooner you will be able to determine whether the sunset will impact you and get guidance on how to navigate the correct planning necessary for you to timely and adequately address the TCJA.

Post-2024 Election Considerations

During Donald Trump's initial term as president, the TJCA was introduced and passed. In light of the recent election results, we can expect that there will be a push to renew and extend the TCJA. If the TCJA is extended, it could allow the estate and gifting annual and lifetime exemptions to remain in place and to further increase annually by adjustment for inflation provisions. This would continue the greatest transfer of wealth in history, allowing individuals to pass larger gifts to their loved ones or establish more complex plans to take advantage of gifting techniques as part of the transfer of wealth. Clients should continue to speak with their financial advisors and estate planning attorneys to remain updated on the TCJA and the potential sunset.