

Tax laws are about to change. Are you ready?

Historically speaking, the only constant in tax law has been change, and today we're in a significant period of change. Do you know how to plan for the future?



THE 2017 TAX CUTS AND JOBS ACT CHANGES ARE TEMPORARY. WHAT'S NEXT?

In 2026, the notable changes brought about by this Act will “sunset.” At that time, the top marginal income tax rate will revert to 39.6%, and the estate and gift tax exemption amount will revert to \$5 million, adjusted for inflation. This is in stark contrast to the 2017 changes:

- Income Tax Brackets – Tax rates across all income brackets were lowered with the income levels adjusted annually.
- The Estate and Gift Tax Exemption – This exemption was effectively doubled, growing from \$5.34 million in 2017 to \$11.18 million in 2018, the first year the law applied. The exemption is indexed every year for inflation and in 2022 is \$12.06 million per person or \$24.12 million per couple.

WHAT DO THE SUNSETTING EXEMPTIONS MEAN FOR YOU?

Now is an opportune time to plan while the exemptions are still high, even if you don't have an estate tax issue today. Why would you plan for a problem you don't have? Given the upcoming decrease in the exemption amount, even with moderate growth in your estate, it's likely you could have an estate tax issue in just four years. By then, it could be too late to implement some strategies, limiting your options for planning.



Example

Bill and Marie, a married couple, have an estate worth \$11 million today. With the \$24.12 million combined exemption for a married couple in 2022, today they would not pay estate tax.

We assume their estate grows at 6.5%, making it worth approximately \$14 million in 2026. At that time and under the current laws, the estate tax exemption should have decreased to around \$6.5 million per individual or \$13 million for a married couple.*

Taxable estate value over the federal exemption amount: More than \$1 million.

Heirs will owe: Approximately \$400,000 in taxes (assuming a 40% tax rate).

What happens to large lifetime gifts you made after exemptions change?

For a period of time after these large exemption amounts became available, many individuals were hesitant to take advantage of them because of concern over the potential “claw-back.” Claw-back is the potential for gifts made during life to be taxed unfavorably at death.

For example, if the basic exclusion amount (\$6.5 million) when you die is lower than the \$11 million gift you make, the \$4.5 million difference would be taxed, or clawed back, from your heirs.

Fortunately, no one should fear the claw-back anymore.

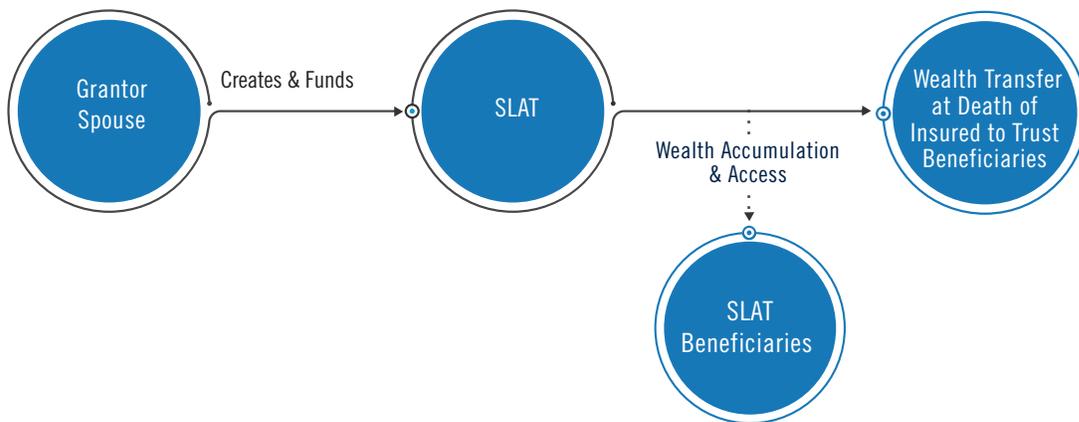
In 2019, the IRS issued final regulations that prevent lifetime gifts that exceed the basic exclusion amount available at the time of an individual's death from being clawed back and taxed as part of the donor's estate. Now you can make gifts without worrying that your loved ones could face unexpected repercussions after you're gone.

A STRATEGY TO CONSIDER FOR MORE CONFIDENT GIFTING: SPOUSAL LIFETIME ACCESS TRUST (SLAT).

Although making gifts makes financial sense, you may be reluctant to gift because you wonder what will happen if your circumstances and/or tax laws change. What if there was a way for you to make a gift today with confidence that access to it won't be lost? A spousal lifetime access trust (SLAT) just might be the answer.

A SLAT is an irrevocable trust created by one spouse for the benefit of the other, as well as additional family members, usually children and/or grandchildren. The grantor (the one making the gift) uses all or a portion of his or her lifetime gift tax exemption to make a gift to the SLAT, and the spouse is named a beneficiary. While the grantor gives up his or her right to the property transferred into the trust, the beneficiary spouse maintains access to that same property according to the trust document. The trust document can be structured as appropriate for each family's circumstances.

For example, some arrangements allow only the beneficiary spouse to access funds during his or her lifetime while children and grandchildren benefit only after the beneficiary spouse's death. Other arrangements permit distributions to the beneficiary spouse and children simultaneously.



NOW IS THE TIME TO START THE PLANNING CONVERSATION.

The SLAT is just one type of strategy to consider. Based upon your unique needs, another approach may be more appropriate. Working with your team, you can develop an approach that helps to address your specific financial wellness needs and legacy wishes. However, waiting will reduce your options, as the clock is ticking with the upcoming decrease in the federal exemptions.

**Call your financial professional today
to start the estate planning conversation.**

*The 2026 federal estate tax exemption is scheduled to be \$5 million, adjusted for inflation. As such, this is a projected estimate of the 2026 exemption and is subject to change and/or a different inflation calculation. This projection is shown for illustrative purposes.

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