

Money Matters

November 1, 2024

Skloff Financial Group Question of the Month

By Aaron Skloff, AIF, CFA, MBA

Q: We read ‘How a Gift Can Be a Tax Dream or a Tax Nightmare’ Part 1 and Part 2. We also read ‘How To (Legally) Avoid Taxes When Selling Your Home’ Part 1, Part 2 and Part 3. Furthermore, we read ‘How Gifting Versus Selling Your Home Can Be a Tax Dream or a Tax Nightmare’ Part 1, Part 2 and Part 3. Then, we read ‘How a Step-Up in Basis Can Be a Tax Dream’ Part 1, Part 2 and Part 3. Furthermore, we read ‘How Community Property States Versus Separate Property States Can Be a Tax Dream or a Tax Nightmare’ Part 1, Part 2 Part 3 and Part 4. Lastly, we read ‘How the Estate Tax Exemption Can Be a Tax Dream’ Part 1. Can you provide estate planning strategies before the estate tax exemption collapses in 2026?

The Problem – The Estate Tax Exemption is Scheduled to Collapse in 2026

Effective 2026, the estate tax exemption is scheduled to collapse to an estimated \$6.8 million.

The Solution –Estate Planning Strategies as 2026 Estate Tax Exemption Collapse Approaches

In 2024, the first \$13.61 million of your estate for single individuals or \$27.22 million for married couples is estate tax free due to the lifetime estate tax exemption (LETE) – **a tax dream**. In 2025, the first \$13.99 million of your estate for single individuals or \$27.98 million for married couples is estate tax free due to the LETE – **a tax dream**. Larger estates are subject to a **40%** top tax rate.

Gifts made in advance of the exemption collapse are grandfathered. According to the IRS, “On November 26, 2019, the IRS clarified that individuals taking advantage of the increased gift tax exclusion amount in effect from 2018 to 2025 will not be adversely impacted after 2025 when the exclusion amount is scheduled to drop to pre-2018 levels.” Fortunately, there are estate planning strategies you can implement before 2026.

Gifting. If you are single you can gift up to \$18,000 in 2024 and \$19,000 in 2025, per beneficiary, without affecting your LETE – **a tax dream**. If you are married you can gift up to a combined \$36,000 in 2024 and \$38,000 in 2025, per beneficiary, without affecting your LETE – **a tax dream**. Gifts in excess of these amounts can avoid gift taxes but consume an equal amount of your lifetime estate tax exemption. Let’s look at examples of outcomes for a single person and a married couple where they do not implement estate planning strategies versus where they implement estate planning strategies. All parties die in 2026. For simplicity, the assets do not appreciate, and the estate tax rate is rounded to 40%.

Single. If your assets are \$14 million and you implement no estate planning strategies from 2024 to 2026, the **total of your gifts and estate value after taxes would be \$11.12 million**, after paying **\$2.88 million in estate taxes**. Now, let’s implement estate planning strategies. Starting in 2024 with \$14 million, you gift \$200,000 not affecting your LETE. In 2025, you gift \$200,000 not affecting your LETE and \$13 million affecting your LETE. When you die in 2026, the **total of your gifts and estate value after taxes would be \$13.76 million**, after paying **\$240,000 in estate taxes – a tax dream**. See the table below.

Married. If your assets are \$28 million and you implement no estate planning strategies from 2024 to 2026, the **total of your gifts and estate value after taxes would be \$22.24 million**, after paying **\$5.76 million in estate taxes**. Now, let’s implement estate planning strategies. Starting in 2024 with \$28 million, you gift \$400,000 not affecting your LETE. In 2025, you gift \$400,000 not affecting your LETE and \$26 million affecting your LETE. When you die in 2026, the **total of your gifts and estate value after taxes would be \$27.52 million**, after paying **\$480,000 in estate taxes – a tax dream**. See the table below.

2024 - 2026 Without Estate Planning Versus With Estate Planning				
	Without Estate Planning Single	Without Estate Planning Married	With Estate Planning Single	With Estate Planning Married
2024				
Assets	\$14,000,000	\$28,000,000	\$14,000,000	\$28,000,000
Less Gifts Affecting Lifetime Estate Tax Exemption	\$0	\$0	\$0	\$0
Less Gifts Not Affecting Lifetime Estate Tax Exemption	\$0	\$0	\$200,000	\$400,000
2025				
Assets	\$14,000,000	\$28,000,000	\$13,800,000	\$27,600,000
Less Gifts Affecting Lifetime Estate Tax Exemption	\$0	\$0	\$13,000,000	\$26,000,000
Less Gifts Not Affecting Lifetime Estate Tax Exemption	\$0	\$0	\$200,000	\$400,000
2026				
Assets	\$14,000,000	\$28,000,000	\$600,000	\$1,200,000
Less Unused Lifetime Estate Tax Exemption Estimate	\$6,800,000	\$13,600,000	\$0	\$0
Taxable Estate	\$7,200,000	\$14,400,000	\$600,000	\$1,200,000
Estate Tax Rounded to 40%	\$2,880,000	\$5,760,000	\$240,000	\$480,000
Estate Value After Taxes	\$11,120,000	\$22,240,000	\$360,000	\$720,000
Total Gifts and Estate Value After Taxes	\$11,120,000	\$22,240,000	\$13,760,000	\$27,520,000

www.skloff.com

Action Steps

Work closely with your Registered Investment Adviser (RIA) to reduce your taxes, and grow and preserve your wealth.

Aaron Skloff, Accredited Investment Fiduciary (AIF), Chartered Financial Analyst (CFA), Master of Business Administration (MBA) is CEO of Skloff Financial Group, a Registered Investment Advisory firm specializing in financial planning, investment management and benefits for small to middle sized companies. He can be contacted at www.skloff.com or 908-464-3060.