Three things every philanthropist must know about the gift and estate tax sunset

Wayne County COMMUNITY FOUNDATION

The shorter days of winter isn't the only sunset creeping up on people these days. If you've met with your estate planning attorney and tax advisors recently, you're probably aware that the gift and estate tax exemption–the total amount you can leave to family and other beneficiaries during life and at death before the hefty federal gift and estate tax kicks in–is about to drop, rather precipitously.

Without legislation to prevent it, on January 1, 2026, the exemption will drop from $12,920,000 per person (that's the 2023 exemption) to about half of that amount, depending on annual inflation increases. As the date gets closer, tax planning decisions get tougher. Make aggressive moves now to activate gifts to family members? Or hold out to see if legislation intervenes to prevent the sunset?

Understandably, some philanthropists are beginning to get concerned about what their legacy might look like when (and if) the exemption drops. Add to that uncertainty the fact that a person's date of death is among life's great unknowns, it's no wonder that for the relatively few taxpayers who may be impacted by gift and estate taxes—at least for now—there's both concern and confusion.

Here's a quick review of the **facts**:

- For 2023, the estate tax exemption is $12.92 million per individual, $25.84 million per married couple, and for 2024, the exemption rises to $13.61 million and $27.22 million, respectively, adjusted for inflation, as recently announced by the IRS.

- The IRS will issue inflation adjustments for 2025, too.

- For 2026, the exemption is scheduled to fall back to 2017 levels, adjusted for inflation, which would roughly total $7 million per person.

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Here are a few **strategies** you might consider evaluating with your tax advisors now to advance your estate plan and your philanthropy plan:

- If you are a business owner, you could explore launching a gifting program to transfer shares of your business not only to heirs, taking advantage of the higher exemption, but also to your donor-advised or other fund at the community foundation. The objective here would be to begin intentionally reducing the value of your estate, assuming that the estate tax exemption will rise, while also executing a business transition plan that meets your overall intentions regardless of the tax laws. (As with any gift of a hard-to-value asset, securing a qualified appraisal is essential, as is timing; shares can't be gifted to a charity if a sale is effectively already in process. The IRS watches both very closely.).

- Annual exclusion gifts ($17,000 per gifting spouse per recipient in 2023, increasing to $18,000 in 2024) to family members and other individuals are an effective way to reduce the value of a taxable estate without eating into the lifetime gift and estate tax exemption. Indeed, many philanthropic individuals use the annual exclusion technique as inspiration for their charitable gifts. Gifts to charities are deductible for gift and estate tax purposes (as well as for income tax purposes) and therefore also serve to reduce the value of a taxable estate without eating into the exemption. Some philanthropists report that they like the idea of making annual exclusion gifts to each family member and then using their donor-advised fund at the community foundation to make annual exclusion-amount gifts to each of the charities they support.

- Work with your tax advisors and the team at the community foundation to run various financial scenarios to determine whether the exemption sunset will affect you and if so, to what extent. If you find yourself looking at a potentially significant taxable estate in a couple of years, consider increasing your bequests to your donor-advised or other fund at the community foundation. Amounts passing to the community foundation or other qualified charity upon your death are not subject to estate tax. This means your charitable priorities will receive 100 cents on every dollar in the taxable portion of your estate, while your family and other beneficiaries could receive 60 cents on the dollar–or even less.

As always, the team at Wayne County Community Foundation is here to help you navigate the opportunities and pitfalls presented by changes in the tax law. It is our pleasure to work with you and your advisors to maximize your charitable goals.

Let's connect.

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