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Estate Planning: Important Considerations Amid Political Uncertainty

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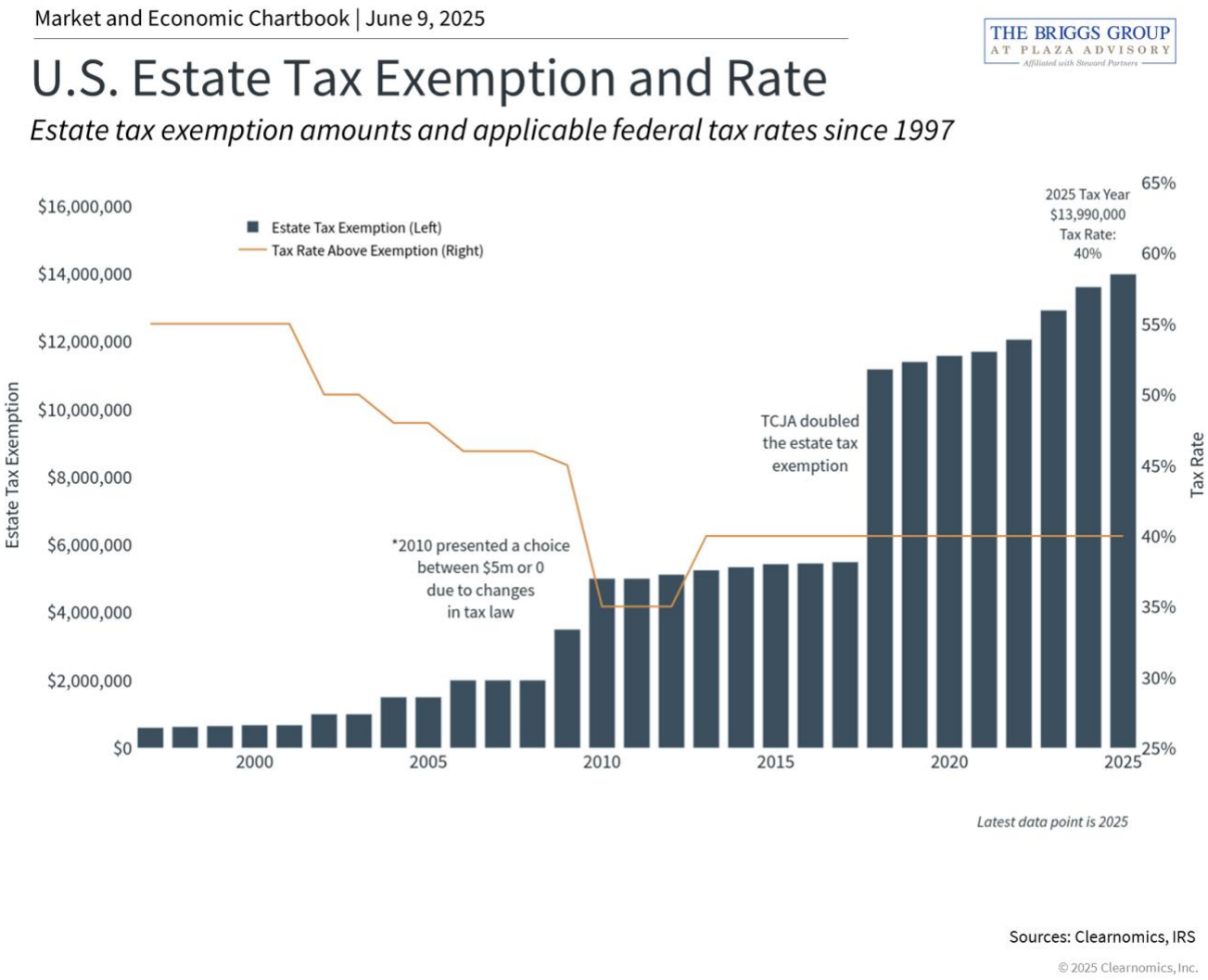
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After a lifetime of working hard, saving diligently, and investing wisely, one of the key considerations is how to pass these assets to future generations. This is where estate planning comes in. While many investors rightly start by focusing on portfolio allocation and retirement savings, they often delay addressing how their assets will be distributed after death. This has become increasingly costly as estate tax laws have undergone significant changes, with Congress recently passing legislation that could extend current estate tax provisions.

Estate planning is one of the most overlooked yet critical components of comprehensive financial planning. This is relevant for all families, whether they manage substantial portfolios or simply need to leave assets to loved ones in the best possible way. Understanding these evolving regulations and using appropriate strategies can mean the difference between preserving wealth for future generations and gifting to charitable causes, or losing significant portions to taxation.

Estate planning can be a complex topic that extends beyond simply writing a will. In this article, we'll provide an overview of important considerations, including tax optimization, asset protection, and ensuring that your financial legacy aligns with your values and intentions. For investors, this represents both challenges and opportunities to structure their affairs in ways that maximize what they can pass to their beneficiaries.

Federal estate tax exemptions remain at historic highs



Currently, individuals can pass up to $13.99 million to their heirs without triggering federal estate taxes, while married couples can transfer up to $27.98 million. These exemption levels, established under the Tax Cuts and Jobs Act of 2017 and adjusted each year for inflation, represent some of the highest thresholds in U.S. history.

Without Congressional action, these provisions would be set to expire at the end of 2025, at which point the exemptions would revert to their 2017 levels of approximately $5.49 million per individual, adjusted for inflation. However, the current budget which has been approved by the House of Representatives would not only extend these provisions permanently, but also expand them to $15 million for individuals and $30 million for married couples in 2026. These numbers could change as the bill is debated in the Senate.

The accompanying chart shows how estate tax exemptions and rates have evolved over time. What's noteworthy is that while exemption levels have increased dramatically, the top tax rate of 40% has

remained relatively stable in recent years. This creates a significant planning opportunity for families whose estates exceed the potential future thresholds.

Gifting strategies can help reduce taxable estates

For families with substantial wealth, annual gifting represents one of the most straightforward strategies to reduce future estate tax liabilities. The annual gift tax exclusion for 2025 allows individuals to give up to $19,000 per recipient without using any of their lifetime exemption. This means a married couple with five grandchildren could collectively gift $190,000 annually without tax consequences, effectively reducing their taxable estate each year.

The power of consistent gifting is most apparent when viewed over time. A family that maximizes annual exclusions over a decade or more can transfer millions of dollars while avoiding both gift and estate taxes. This strategy is even more valuable when combined with assets that are expected to appreciate, since future growth would occur outside the taxable estate.

Beyond annual exclusions, the current lifetime gift tax exemption of $13.99 million provides additional planning opportunities. Some families are choosing to make large gifts now to lock in the current exemption levels just in case there are future changes to the law. Of course, this approach requires careful consideration of future financial needs and the family's overall objectives.

State tax considerations add complexity

While the federal estate tax affects only the wealthiest families, state-level taxes can impact a broader range of estates. This means that residency decisions can have significant tax implications. For example, Florida and Texas do not apply estate taxes at the state level, while New York and Massachusetts have stricter exemption thresholds than the federal level.

State tax laws also change frequently, adding another layer of uncertainty to long-term planning. What may be a tax-efficient strategy today could become less attractive if state legislatures modify their approach to estate taxation. This underscores the importance of regular plan reviews and maintaining flexibility in estate planning structures.

Trusts and other planning tools provide flexibility

Beyond basic wills, estate planning often involves trusts and other advanced techniques. For instance, irrevocable life insurance trusts can remove life insurance proceeds from taxable estates. Charitable remainder trusts can provide income to beneficiaries while generating tax deductions and supporting philanthropic goals.

Additionally, the stepped-up basis provision remains a significant benefit for inherited assets. This rule adjusts an inherited asset's cost basis to its fair market value at the time of the owner's death, potentially eliminating capital gains taxes on appreciation that occurred during the original owner's

lifetime. While this provision has faced political challenges, it currently remains in effect and represents an important consideration in estate planning strategies.

The uncertain economic and political environment underscores the importance of estate planning decisions. With asset values at elevated levels, interest rates providing attractive returns on cash, and historically attractive tax provisions, families have more options for structuring their wealth transfer strategies.

The bottom line? Estate planning is more important than ever, but has also become increasingly complex. All families should review their estate planning regularly as part of their comprehensive financial plans.

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