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OPINION

Today's Business: Sunset of current estate tax exemption

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The federal estate tax is levied on the transfer of assets from a deceased person to the heirs. It has been a controversial topic in the United States for decades, with many people arguing that it is an unnecessary burden on families who are already grieving the loss of a loved one.

In 2017, the Tax Cuts and Jobs Act made significant changes to the estate tax, including a substantial increase in the exemption amount. However, these changes are set to sunset in 2025, which means that the estate tax may once again become a major concern for many families.

The current estate tax exemption amount is $12.92 million per person, or $25.84 million per married couple. This means that individuals with estates valued below this amount do not have to pay any federal estate tax. However, estates valued above this amount are subject to a tax rate of up to 40 percent. The increased exemptions are set to remain in place until December 31, 2025. After that the exemption will revert to $5 million plus an adjustment for inflation.

Keep in mind that while $25.84 million seems like a large exemption, in Fairfield County in particular, where homes can be worth millions, the value of an estate can add up very quickly.

The sunset of the exemption in 2025 has significant implications for estate planning. Many individuals who currently have estates valued below the exemption amount may now find themselves subject to estate tax if they do not take steps to plan accordingly. For example, a couple with a combined estate of $20 million would currently be exempt from estate tax. However, if the exemption amount reverts to pre-TCJA levels, the estate would be subject to a tax of up to 40 percent on the amount over $5 million, resulting in a devastating tax bill in the millions.

One of the most common estate planning strategies used to minimize estate tax liability is gifting. Individuals today can gift up to $17,000 per year per recipient without incurring gift tax. This means that married couples can gift up to $34,000 per year per recipient. Gifting can be an effective way to transfer wealth to future generations while minimizing estate tax liability. However, it is important to remember that gifts are subject to certain restrictions, and individuals should be careful to ensure that their gifting strategy is effective and complies with all relevant laws and regulations.

Another strategy is the use of trusts. Trusts can be an effective way to transfer wealth to future generations while minimizing estate tax liability. For example, a family trust can be established to hold assets and provide income to beneficiaries over a period of time. This can help to minimize estate tax liability by reducing the overall value of the estate. Additionally, trusts can offer other benefits, such as asset protection and privacy.

Individuals who are concerned about the sunset of the estate tax exemption in 2025 should begin planning as soon as possible. There are many strategies that can be used to minimize estate tax liability, and the right approach will depend on the individual's unique circumstances so a plan is created that is tailored to their specific needs and goals.

Only time will tell whether Congress acts to maintain the existing estate tax exemptions. Nevertheless, many individuals who currently have estates valued below the exemption amount may now find themselves subject to estate tax if they do not take steps to plan accordingly.

Atty. William P. Burns Jr. focuses his practice on estate planning and represents a diverse range of clients from all walks of life. He is a principal at Burns Thomas, LLC, and can be reached at 203-723-9420. Burns Thomas is offering a free seminar for "empty nesters" and parents of young families on May 16 at the Trumbull Marriott beginning at 6:30 p.m.