

## Estate Exclusion Expiration

It's hard to believe, today, that in 1997 only \$600,000 was exempted from estate taxes; that is, when a person died, any amount left to heirs above \$600,000 would be taxed at the (then) maximum 55% tax rate. The estate situation is very different today. The Internal Revenue Service just announced that for anyone dying in 2021, the inflation-indexed exemption will be \$11,700,000 per person, and any unused amount from the first spouse to die can be picked up to be used later by the surviving spouse. In addition, the maximum estate tax on amounts above that threshold has dropped to a 40% rate.

The Tax Policy Center estimates that only about 0.1% of the estimated 2.7 million people expected to die in the coming year will have to pay any estate taxes at all. And if you look at the history of estate taxes, there has never been a year when the estate tax exemption was reduced.

All of that could end in four years unless Congress passes an extension. The current exemption is set to sunset at the end of 2025, at which point the exemption would automatically drop back to what it was prior to 2018—back to \$5 million indexed to inflation. We may not have to wait that long. President-elect Joe Biden's tax plan calls for reducing the estate tax exemption amount to \$3.5 million. The plan would also increase the top rate for the estate tax to 45%.

The Biden plan's dramatically reduced exemption would pull a lot more people into estate tax territory, although it is uncertain that the measure would pass in its current form, and it seems unlikely that it would affect the 2021 tax year. But the prospect of a change has set people talking to their financial advisors about gifting to heirs under today's very generous exemption, under the (reasonable) assumption that there would be no clawback for any actions taken under current tax law. In addition, there are a number of relatively complicated estate tax strategies that can be put into place which allow people to keep control of their assets if they're needed in retirement, while allowing any increase in value to be passed on tax-free to heirs. Tax experts are quietly telling their clients to plan now rather than later.

Sources:

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