

# THE JOURNAL RECORD

## Gavel to Gavel: Are you prepared for the estate and gift tax exemption sunset?



*Emily R. Collins*

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The Tax Cuts and Jobs Act (TCJA) of 2017 doubled the federal estate tax exemption for each person starting in 2018 and ending in 2025. The exemption amount is currently \$13.61 million and is indexed for inflation each year. This means that a married couple could die in 2024 with an estate valued of up to \$27.22 million before having to pay estate taxes (assuming they did not use any of their gift tax exemption during their lifetimes). The highest tax rate after the exemption is a whopping 40%.

This sizable exemption is set to sunset at the end of 2025 and will be cut in half, unless Congress takes action before then. Since it will be indexed for inflation, the exemption amount per individual could approximate \$7 million starting January 1, 2026.

Although many people—especially younger generations—may not think their estate is anywhere near the exemption now, “The Great Wealth Transfer” that will be passed from the silent generation and baby boomers is estimated at \$84.4 trillion over the next 20 years. With increases in the value of real estate, retirement plans, and life insurance, many people may be surprised to learn their estate may be taxable.

The easiest and quickest way to reduce the size of your estate (and in turn, reduce potential estate tax liability) is through lifetime giving. An individual can gift each person \$18,000 (indexed for inflation) per year without it counting as a lifetime gift that is required to be reported to the IRS and reduces the size of your taxable estate. Tuition and medical expenses can also be paid on behalf of someone else if paid directly to the educational or medical institution without counting as a lifetime gift. Additionally, charitable giving, either directly through a charitable remainder trust or through your retirement account, can be another way to reduce the size of your taxable estate while also positively impacting your favorite charities.

Certain types of irrevocable trusts such as a spousal lifetime access trust (SLAT), irrevocable life insurance trust (ILIT), or irrevocable gift trusts for descendants are also efficient vehicles for reducing the size of your estate.

While the laws are evolving and the implications can be complex, the development of a carefully structured estate plan in consultation with an estate planning attorney can help mitigate the impact and boost the amount of assets that can be passed to heirs.

*Emily R. Collins is an associate in the Tulsa office of [GableGotwals](#), where she advises clients in estate planning, including guardianships, probate and trust administration.*

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