

High-net worth families are racing against the clock to shield their wealth before the estate tax increases

FORTUNE Alicia Adamczyk
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The wealthiest people in the U.S. could see major tax hikes after next year, sending high-net worth clients to financial planning offices around the country to try to get around them, their money managers say.

In two years, the estate tax exemption, which was generously increased under the Trump administration, could be halved. That's a result of the possible sunset of many of the individual tax provisions of the 2017 Tax Cuts and Jobs Act (TCJA), which are currently scheduled to expire at the end of 2025.

The federal estate tax is a tax of up to 40% on property transferred from a deceased person to their heirs. It applies only to very wealthiest estates—currently, only those valued at least \$13.6 million need to worry about it, and they pay tax on the portion of the estate's value over that exemption level. That's less than 0.1% of returns filed each year.



The estate tax exemption could be halved in 2026. | shapecharge

If the TCJA provisions sunset—it's possible that Congress could step in and extend it—some wealthy families in the U.S. could see "a significant tax hike," says Nita Vyas, trust counsel and managing director at Fiduciary Trust International. The exemption level will fall to around \$7 million (and double that for couples) in 2026.

"This is the number one issue that's looming large in peoples' minds," says Vyas. "For our high-net worth clients, it takes some thought to implement whatever it is you're going to do."

In the U.S., there's no shortage of moves high-net worth individuals and families can make to dodge taxes. Gifting is one of the biggest avenues: Anyone can gift up to \$18,000 per year tax-free to anyone else without it counting against their lifetime gift exclusion, and married couples can gift double that.

That can significantly lower a wealthy person's taxable estate: If a married couple gifts the maximum to three children and six grandchildren this year, for example, that's \$324,000 that comes out of their estate tax-free. That same couple would still be able to gift an additional \$27.22 million tax-free under the lifetime gift tax exemption.

"The gifting, if you can afford to it, is a net positive," says Vyas. "If you can afford to give \$14 million to your children and you live another 30 years, the entire appreciation on that \$14 million is also out of your estate."

They can also set up irrevocable trusts for dependents and descendants, as well as real estate trusts to get their estate tax bills down.

That said, Bob Peterson, senior wealth advisor at Crescent Grove Advisors, says most of his clients aren't actually making the moves just yet—they're waiting to see whether or not the tax cuts will actually expire. It's difficult for many to give up control of their assets because of a theoretical tax hike, even if their children are benefitting (once an irrevocable trust is established, for example, the assets are removed from the person's estate and they no longer own them). So many high net worth individuals are taking their time.

"We're in the wait-and-see stage right now," says Peterson. "The last 90 days of 2025, everyone will want to seriously consider starting to do it."

The 2024 election looms large

Whether or not the tax cuts will be extended largely comes down to who wins the presidential election later this year, financial planners say. President Joe Biden has proposed keeping the tax cuts for those earning less than \$400,000 per year, and supports higher taxes on wealthier households as well as businesses, whereas Republicans generally support making the cuts permanent.

"That's what gives most people pause. Will Congress act? Will tax legislation be at the top of their agendas next year?" says Vyas. No one wants to give up control of their millions only for their worries to turn out to be non-issues.

Progressive groups say Biden's plan is more equitable; under the TCJA, the top 0.1% of households would receive an average tax cut worth \$175,710 in 2026, compared with \$990 for middle income households, according to the Center for American Progress. Conservative groups argue the tax cuts benefit most Americans and spur economic growth.

Of course, tax hikes are not popular, whether they're the result of legislation enacted by a different president or not. It's not clear what Congress will do in 2025, regardless of who wins the election.

"I think you'll see a lot more activity after the election," says Peterson.

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