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the unified estate and gift tax exemption was increased from ...

Jun. 03, 2022



Due to recent tax law changes, your family may be able to avoid adverse federal estate tax consequences when you leave assets to your adult children. For instance, the unified estate and gift tax exemption was increased from \$5 million to \$10 million with inflation indexing (\$12.06 million in 2022). Therefore, a married couple can shelter up to \$20 million (\$24.12 million in 2022) from tax.

But what about assets that you gift or bequeath to your grandchildren? That's a

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to as "skip persons."

Notably, you can't sidestep this potential tax pitfall simply by transferring assets to a trust and naming heirs like your grandchildren as ultimate beneficiaries. For these purposes, all of the trust beneficiaries are treated as skip persons—even the trust itself can be a skip person in certain circumstances.

Generally, the rules relating to the GSTT mirror those that apply to federal estate tax. For instance, the top tax rate for the GSST is 40%, the same as it is for estates.

Along similar lines, the GSTT shares the same exemption amount, indexed for inflation, as the regular federal estate tax. So, the estate can benefit from a \$10 million exemption (\$12.06 million in 2026).

However, this exemption is currently scheduled to revert to \$5 million in 2026, plus inflation indexing. And, of course, Congress may enact other legislation affecting this limit before then.

Note: Be aware that there is another GSTT exemption for lifetime transfers that aligns with the annual gift tax exclusion. Just like the annual gift tax exclusion, in 2022 you can gift up to \$16,000 per recipient (up from \$15,000 in 2021), including a grandchild or other descendant, each year without triggering any GSTT liability.

Keeping all this in mind, consider the following three strategies for avoiding or reducing the GSST.

1. Maximize use of the GSTT exemption. Even though lifetime transfers reduce the available tax shelter, the current \$12.06 million exemption (\$24.12 million for a married couple) should give you plenty of flexibility.
2. Remember that you can use the annual gift tax exemption to shelter from tax gifts of up to \$16,000 above and beyond the lifetime exemption. Utilize this option

before tapping into the lifetime exemption.

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