Dear Client:

Estate and gift tax exclusion doubled

For the estates of decedents dying and gifts made after 2017 and before 2026, the basic exclusion amount for purposes of federal estate and gift taxes is doubled from $5 million to $10 million, as adjusted for inflation. accordingly, the estate and gift tax basic exclusion amount applicable to the estates of decedents dying and gifts made in 2018 is $11.2 million, as adjusted for inflation. For a married couple using portability, the maximum applicable exclusion amount would be doubled again to $22.4 million.

Example I: Bruce Payne, a wealthy single individual, dies in 2018 leaving a taxable estate of $20 million. His estate will owe $3,520,000 in federal estate taxes. If he had died in 2017, however, the estate tax payable would have been $5,804,000.

Example 2: Carol Cologne, a wealthy widow, dies in 2018 leaving a taxable estate of $20 million. Her late husband died earlier in 2018, having used only $2 million of his available estate tax exclusion amount. Her estate will owe no federal estate tax. However, if the couple had died under the same circumstances in 2017, the estate tax payable would have been $4,408,000.

Because the doubling of the estate and gift tax exclusion amount expires for decedents dying and gifts made after December 31, 2025, the next several years present a tremendous opportunity for wealthy individuals and married couples to make large gifts, including those that leverage the amount of the available exclusion, such as those to grantor retained annuity trusts (GRATs).

GST tax exemption amount

Because the exemption from the GST tax is computed by reference to the basic exclusion amount used for estate and gift tax purposes, the GST exemption amount for GSTs occurring in 2018 is $11.2 million. Portability does not apply for purposes of the GST tax.

Corresponding adjustments with respect to prior gifts. In addition to the increase in the basic exclusion amount, the Tax Cuts and Jobs Act modifies the computation of gift tax payable and estate tax payable in cases where gifts have been made in prior years. With respect to the computation of gift tax payable, the tax rates in effect at the time of the decedent's death are used rather than the rates that were in effect at the time the gifts were made

Inflation adjustments going forward. A separate amendment of the Tax Cuts and Jobs Act requires that future inflation adjustments mandated throughout the Internal Revenue Code be made using the

"Chained" Consumer Price Index for All Urban Consumers (C-C PI-U) rather than the CPI adjustment used under current law. This change, effective for tax years beginning after December 31, 2017, will generally serve to slow down inflation adjustments to provisions throughout the Code, including the estate and gift tax exclusion amounts.

If you have any questions related to the increase of the exclusion amount for federal estate and gift taxes and the exemption amount for GST tax, or for estate planning in general, please call our office. We are here to assist you.

Sincerely,