



What You Need to Know about the 2018 Estate, Gift and GST Tax Exemption Increases:

Congress passed, and the administration signed tax legislation into law last week, ushering in several changes to the estate tax wealth transfer tax system, which will take effect in the new year, on January 1st. Under the new law, the federal estate, gift and generation-skipping transfer (“GST”) tax exemption amounts will increase to \$5,490,000 to \$11,200,000 for individuals and \$10,980,000 to \$22,400,000 for married couples. These exemption amounts are scheduled to increase, with inflation, every year until 2025. On January 1, 2026, the exemption amounts are scheduled to revert to the 2017 levels, adjusted for inflation. The highest marginal federal estate and gift tax rates will remain at 40% and the GST tax rate will remain a flat 40%.

This significant but temporary increase in the exemption amounts presents a unique opportunity for estate planning. We recommend that you consider taking advantage of the increased gift tax exemption amount, and possibly the GST tax exemption amount, by making gifts to children and/or grandchildren, either outright or to new or existing trusts. This increased gift tax exemption amount will allow a married couple, who previously used their full gift tax exemption amounts, to transfer additional funds to their descendants in 2018 (up to an additional \$11,420,000) without the imposition of federal gift tax.

For New York residents, there is an additional benefit of giving the full federal exemption amount during life—such funds will not be subject to any New York gift tax or estate tax if you die after January 1, 2019, whereas they could be subject to New York estate tax if you own such assets at your death. New York estate tax rate is 16%; however, after taking into account the federal deduction for state estate taxes paid, the effective New York estate tax rate is approximately 9%.

We also recommend that you review the terms of your Wills and Revocable Trusts, at this time, to ensure they remain in accordance with your wishes. Many Wills and Revocable Trusts create trusts that will be funded according to Formula Clauses tied to the exemption amount in effect on your date of death. If you die before 2026, these trusts may be funded with significantly larger amounts than you were anticipating when the documents were signed.

In addition, the amount each person may give annually to as many individuals as he or she desires, without incurring a gift tax and without using any of the gift tax exemption amount, will increase to \$15,000 in 2018 (up from \$14,000 in 2017). Therefore, beginning in 2018, a married couple may make “annual exclusion gifts” of up to a total of \$30,000 to an unlimited number of recipients. If you would like to make annual exclusion gifts to a minor, you may wish to make these gifts to “Crummey” trusts or to UTMA or college savings accounts. Please note, that in addition to making gifts, using your gift tax exemption and annual exclusion amounts, there is an unlimited gift tax exclusion for amounts paid, on behalf of an individual directly, to medical care providers for medical care and to educational institutions for tuition.

Call now for your annual Estate Planning tune-up. If you call in the month of January to schedule an appointment, we will provide the Estate Planning session for a special client fee of \$350 for a one hour session.