

Transfer Wealth Before Lifetime Exemption Expires in Two Years

When it comes to the tax-free transfer of wealth, we're living in a golden era. Single individuals can move \$12.92 million and married couples can move \$25.84 million¹ out of their taxable estate without paying a dime to Uncle Sam.

Take Advantage of Current Exemption

When the federal estate tax exemption expires Dec. 31, 2025, that exemption will be cut in half and adjusted for inflation. While it's possible that there could be new tax legislation between now and then, it's advisable to be proactive about wealth transfer strategies now.

How the Lifetime Estate Tax Exemption Works

Regarding the current federal lifetime gift exemption limit, an individual or couple can give away any amount up to the limits noted above, either during their lifetime or after their death, without that amount being subject to tax. For any amount above that, you'll be taxed at a rate of 40%.

Generation-Skipping Tax

The federal generation-skipping tax exemption is also \$12.92 million. The tax applies to transfers to grandchildren or more remote descendants or unrelated individuals. Similar to the estate tax exemption, you will be taxed at a rate of 40% for any amount above \$12.92 million.

Consider the following five wealth transfer strategies in advance of the sunset of current federal lifetime exemptions.

1. Make Direct Gifts

Giving assets directly to recipients is a straightforward way to reduce the size of an estate, but it's important to weigh the pros and cons of doing so. Direct gifts allow the donor to specify who

receives the gifted assets and to see the positive impact of their gifts during their lifetime. However, once the assets are gifted, the recipient can use the assets as they see fit, even if it's not in accordance with the donor's wishes. Keep in mind that the annual gift tax exclusion is \$17,000 per recipient (\$34,000 for split gifts of married couples) in 2023,² with gifts above this amount counting toward the lifetime gift tax exemption.

2. Set Up an Irrevocable Trust

Assets transferred into irrevocable trusts are no longer considered part of the grantor's estate, which is beneficial for reducing your taxable estate. They're also protected from creditors and can be managed and distributed according to the grantor's wishes. One popular type of irrevocable trust is the grantor retained annuity trust (GRAT). A GRAT is irrevocable transfer of cash or property in trust in exchange for an annuity, generally payable for a fixed term of years. Property remaining in trust (including any appreciation) after expiration of annuity term passes to remaindermen, also known as a person who will inherit property, at no additional gift tax cost.



In a similar vehicle known as an intentionally defective grantor trust, the grantor pays the income taxes during the trust term, which benefits its beneficiaries by allowing the trust to grow faster without the burden of paying income taxes.

3. Make Gifts “Upstream”

Wealth transfer is usually thought to involve giving assets to members of a younger generation. In upstream gifting, an individual gifts assets to a family member of a previous generation, such as a parent or grandparent. Upstream gifting allows individuals to transfer wealth out of their estate while also taking advantage of the recipient’s potentially lower tax bracket and higher gift and estate tax exemptions. Parents or grandparents can use the transferred assets for their own expenses and, in certain cases, distribute them to grandchildren or great-grandchildren without incurring gift or estate taxes.

4. Maximizing the Generation-Skipping Tax

The generation-skipping tax exemption is a potent tool for preserving intergenerational wealth. Here’s a hypothetical example of how it might be used. Let’s say you want to transfer as much of your \$30 million estate as possible to your grandchildren without incurring gift or estate taxes. If you leave your assets directly to your children, estate taxes will be levied when the assets are passed to your grandchildren and then again when your grandchildren transfer assets to their heirs. By transferring up to \$12.92 million or your remaining exemption to a properly structured generation-skipping trust, those assets will be excluded from estate-tax liability to the benefit of both your children and grandchildren.

Note that, unlike the federal estate tax exemption, any generation-skipping tax exemption unused at one spouse’s death cannot be used by the surviving spouse. In other words, you must “use it or lose it.” These tax provisions are also set to expire at the end of 2025 unless Congress takes action to extend them.

5. Don’t Overlook Portability

The portability provision of current tax law allows a surviving spouse to use any unused portion of their deceased spouse’s estate and gift tax exemption. This could potentially add millions of dollars’ worth of tax exclusions.

Consult With Your Wealth Advisor

The solutions and strategies described above are among many that can help you transfer family wealth without unduly diminishing it. Each family’s situation and goals are different, and wealth transfer planning is a complex area. Your wealth advisor, backed by our team of in-house professionals, can help you better understand your potential exposure to estate taxes and lay out the best options for navigating forward.



For more information visit: marinerwealthadvisors.com

¹[“What’s New – Estate and Gift Tax”](#)

²[“IRS Provides Tax Inflation Adjustments for Tax Year 2023”](#)

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