



Estate planning in 2025

Sunset of the enhanced lifetime exemption still possible

March 2025

Federal law provides a lifetime exemption that allows you to gift or bequeath a certain amount of wealth without having to pay transfer tax. Under the Tax Cuts and Jobs Act of 2017 (TCJA), from 2018 through 2025, this exemption is doubled to \$10,000,000 from its prior base amount of \$5,000,000. This amount is adjusted annually for inflation. Thus, for 2025, the lifetime exemption amount is \$13,990,000 per person. This means that, except to the extent you have already used this exemption for prior gifting, you may give up to \$13,990,000 of assets (\$27,980,000 collectively with your spouse) in 2025 without incurring a gift or estate tax. The generation-skipping transfer tax exemption is also \$13,990,000 for 2025.

However, as with many of the other individual tax benefits put in place by the TCJA, the increase is scheduled to sunset at the end of 2025, with the exemption reverting to \$5 million per person (as adjusted for inflation) in 2026. While the outcome of the 2024 election has made extension of the doubled exemption more likely, it is still not clear if and when the new Congress will act. It is possible, therefore, that if the enhanced exemption is not used by the end of this calendar year, the benefits of the increased exemption may be lost.

The discussion on the right identifies additional reasons you should focus on estate planning this year and describes strategies you may want to consider in order to utilize the enhanced exemption. Given how long it takes to analyze and implement tax planning ideas, individuals who wait until the last minute may not be able to find an advisor with time to help or may end up rushing through planning that should be more thoughtfully crafted.



Benefits of transferring assets today

In addition to the short-term availability of the larger exemption, there are additional reasons for individuals to focus on estate planning in the near term. These include the:

1

Ability to **remove future appreciation and income** from an estate

2

Availability of various **non-tax benefits of trusts** (e.g., asset protection, asset management, and control over future disposition)

3

Opportunity to **minimize state income tax** by utilizing non-grantor trusts resident only in a state with no or low income tax

4

Prospect of **future legislation** that may reduce or eliminate the effectiveness of popular planning techniques (e.g., sales to intentionally defective grantor trusts or grantor-retained annuity trusts)

5

Possibility that the availability of **valuation discounts** for gifting interests in family limited partnerships or other family-controlled entities will be curtailed by Congress or Treasury



Potential consequences of waiting

Individuals who can afford to part with \$13.99 million (\$27.98 million for married couples), and in some cases, even those who feel like they cannot, should undertake planning now. Even those who have done extensive estate planning in the past should review their estate plan and see how they might make best use of any remaining exemption. For example, an individual who used all their then-available exemption on gifts during 2022 could make \$1,930,000 (\$3,860,000 per couple) of additional tax-free gifts this year using the subsequent inflation adjustments to the lifetime exemption. Even someone who used all their exemption on gifts last year can still make \$380,000 (\$760,000 per couple) of additional tax-free gifts this year using just the 2025 inflation adjustment.

Assuming moderate inflation this year, the lifetime exemption could decrease from \$13.99 million in 2025 to approximately \$7 million in 2026. Making pre-sunset taxable gifts of the enhanced exemption amount would result in estate tax savings of \$2.8 million (based on the current estate tax top rate of 40 percent). Keep in mind that this is just intended to provide a general sense of the benefit at stake; it is somewhat difficult to quantify the value of making pre-sunset taxable gifts while the enhanced exemption is available given the potential variables involved, including (1) the amount of any inflation adjustments to the exemption over time, (2) the timing of the donor's death, and (3) the date of actual sunset in light of potential legislative changes.

In addition to the tax savings attributable to utilization of the enhanced exemption before it sunsets, lifetime taxable gifts may produce an estate freezing benefit as well. This is because post-gift appreciation of and income from the gifted assets will generally not be subject to gift or estate tax in the hands of the donor (or, if a long-term trust is utilized, potentially even in the hands of subsequent generations). As long as the donor does not retain any power over or interest in the transferred assets, additional estate tax savings (to those attributable to use of the exemption before it sunsets) may result, especially if you gift assets with significant appreciation potential. However, you should also be aware that the transfer of assets during your life will mean forgoing the potential step-up in basis to fair market value available for assets owned at death.



Ways to utilize the enhanced exemption

Individuals may wish to consider taking one or more of the following actions in 2025 to utilize the enhanced lifetime exemption:

- Outright gifts to individuals
- Equalizing historic gifts to children or grandchildren
- Forgiveness of outstanding loans to friends, family, and trusts
- Gifts to dynasty trusts
- Gifts to new intentionally defective grantor trusts (IDGTs) in connection with a subsequent sale to the trust for a note—the benefits of this structure can be magnified since the gift of the seed property can be much larger now without any additional gift tax exposure
- Gifts to trusts that have pre-existing sales in place in order to improve the equity to debt ratio
- Gifts to trusts that allow the grantor's spouse to retain some access to the funds (SLATs) if they are otherwise concerned about giving away \$27.98 million of assets
- If remaining generation-skipping transfer tax exemption exceeds remaining gift exemption, excess can be allocated to existing dynasty trusts that are not fully exempt or to a newly created marital deduction trust.



Resources

Please contact your local KPMG Private Enterprise tax professional for assistance with making use of your temporarily enhanced lifetime exemption or for estate planning advice more generally.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

The following information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230.

© 2025 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS017858-1B