Preparations for 2023:

TAX PLANNING AND CHANGES ON THE HORIZON

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WITH 2022 IN THE REARVIEW MIRROR, it is the perfect time to prepare for the 2023 tax year and consider matters such as gift tax exemption changes and interest rate increases.

Gift and Estate Tax Exemption. The gift and estate tax lifetime exemption amount is indexed annually for inflation and will increase from $12.06 million to $12.92 million per person in 2023. For married couples, each spouse can use this exemption amount, resulting in a combined amount of $25.84 million for 2023 (assuming proper planning and elections are made).

Under current law, the exemption amount will be reduced by half on January 1, 2026 (the exemption amount will continue to increase for inflation, so the exact amount is indefinite). Donors can take advantage of the increased gift tax exemption amount through 2025 by making completed gifts before January 1, 2026.

GST Tax Exemption. The generation-skipping transfer (GST) tax exemption is currently set at the same amount as the gift and estate tax exemption and is also indexed for inflation each year. Thus, the exemption amount will increase to $12.92 million per person in 2023. Under current law, the GST exemption will also be reduced by half on January 1, 2026.

Annual Exclusion. Each year, the Internal Revenue Service permits a donor to transfer a specified amount to a noncharitable donee without using any of the donor's gift and estate tax exemption, which is called the "annual exclusion." Annual exclusion gifts are a great way to pass wealth on to the next generation without incurring income or transfer tax liability.

The annual exclusion is also indexed for inflation. In 2023, the annual exclusion will increase from $16,000 to $17,000 per donor for each recipient for taxable gifts. Accordingly, a donor may gift up to $17,000 to a donee in 2023 without using any of the donor's gift and estate tax exemption. A married couple can gift up to $34,000 to each donee for 2023. Gifts above the annual exclusion amount must be reported on a Form 709 (Gift Tax Return) and use gift/estate tax exemption.

Rising Interest Rates. In recent years, interest rates have been at historic lows, making intra-family loans (including those to trusts) a great way to leverage estate and gift exemptions. Techniques like sales to Intentionally Defective Grantor Trusts (IDGTs) and Grantor Retained Annuity Trusts (GRATs) have benefitted from these low rates. With rates now rising, these techniques are less beneficial, but techniques such as Qualified Personal Residence Trusts (QPRTs) and Charitable Remainder Annuity Trusts (CRATs) will be more effective.

If you have estate tax concerns, it is critical to educate yourself, understand your options and give yourself sufficient time to take action before January 1, 2026.