

Because of the current estate tax exemption amount (\$11.7 million in 2021), many estates no longer need to be concerned with the federal estate tax. Years ago, a much smaller exemption amount put more pressure on estate plans to avoid it. Now that many estates won't be subject to estate tax, you can devote more energy to other aspects of estate planning.

Use the Exclusion

Among the benefits of using the gift tax annual exclusion to make transfers during your life is to save estate tax. This is because both the transferred assets and any post-transfer appreciation generated by those assets are removed from a donor's estate.

As mentioned, estate tax savings may not be an issue because of the large estate exemption amount. Further, making an annual exclusion transfer of appreciated property carries a potential income tax cost because the recipient receives the donor's basis upon transfer. Thus, the recipient could face income tax, in the form of capital gains tax, on the sale of the gifted property in the future. If there's no concern that an estate will be subject to estate tax, even if the gifted property grows in value, then the decision to make a gift should be based on other factors.

For example, gifts may be made to help a relative buy a home or start a business. But a donor shouldn't gift appreciated property because of the capital gain that could be realized on a future sale by the recipient. If the appreciated property is held until the donor's death, under current law, the heir will get a step-up in basis that will wipe out the capital gains tax on any pre-death appreciation in the property's value. (Note: The Biden administration has proposed ending this tax break, with some exceptions.)

Look to Spousal Accounts

In the past, spouses often undertook complicated strategies to equalize their estates so that each could take advantage of the estate tax exemption amount. Generally, a two-trust plan was established to minimize estate tax. "Portability," or the ability to apply the decedent's unused exclusion amount to the surviving spouse's transfers during life and at death, became effective for estates of decedents dying after 2010.

If the election is made, portability allows the surviving spouse to apply the unused portion of a decedent's applicable exclusion amount (the deceased spousal unused exclusion amount) as calculated in the year of the decedent's death. The portability election gives married couples more flexibility in deciding how to use their exclusion amounts.

Identify Strategies

Although the federal estate tax is currently less onerous, estate planning is still a complex yet critical task. Contact us to discuss these strategies and how they might relate to your estate plan.

Some estate exclusion or valuation discount strategies to avoid the inclusion of property in an estate may no

longer be worth pursuing. It may be better to have the property included in the estate or not qualify for valuation discounts so that the property receives a step-up in basis. For example, the special use valuation — the valuation of qualified real property used for farming or in a business on the basis of the property's actual use, rather than on its highest and best use — may not save enough, or any, estate tax to justify giving up the step-up in basis that would otherwise occur for the property.