Wealth Management Update

September 2025

The "new math" in estate planning

With the enactment of the One Big Beautiful Bill Act in July came a major shift in the conversations that estate planners are having with their clients. Before the new law was enacted, estate taxes were scheduled for a sharp increase next year, so strategies were being discussed for preserving the higher estate tax exemption before it expired. Now the exemption has been lifted still higher, from $13.99 million this year to $15 million next year, *and the increase is permanent.*

Although exposure to federal estate and gift taxes has been eliminated for well over 90% of the population, that does not reduce the need for an estate plan. The largest fortunes continue to be subject to pretty hefty taxes [see "The impact of federal estate taxes" below]. State taxes

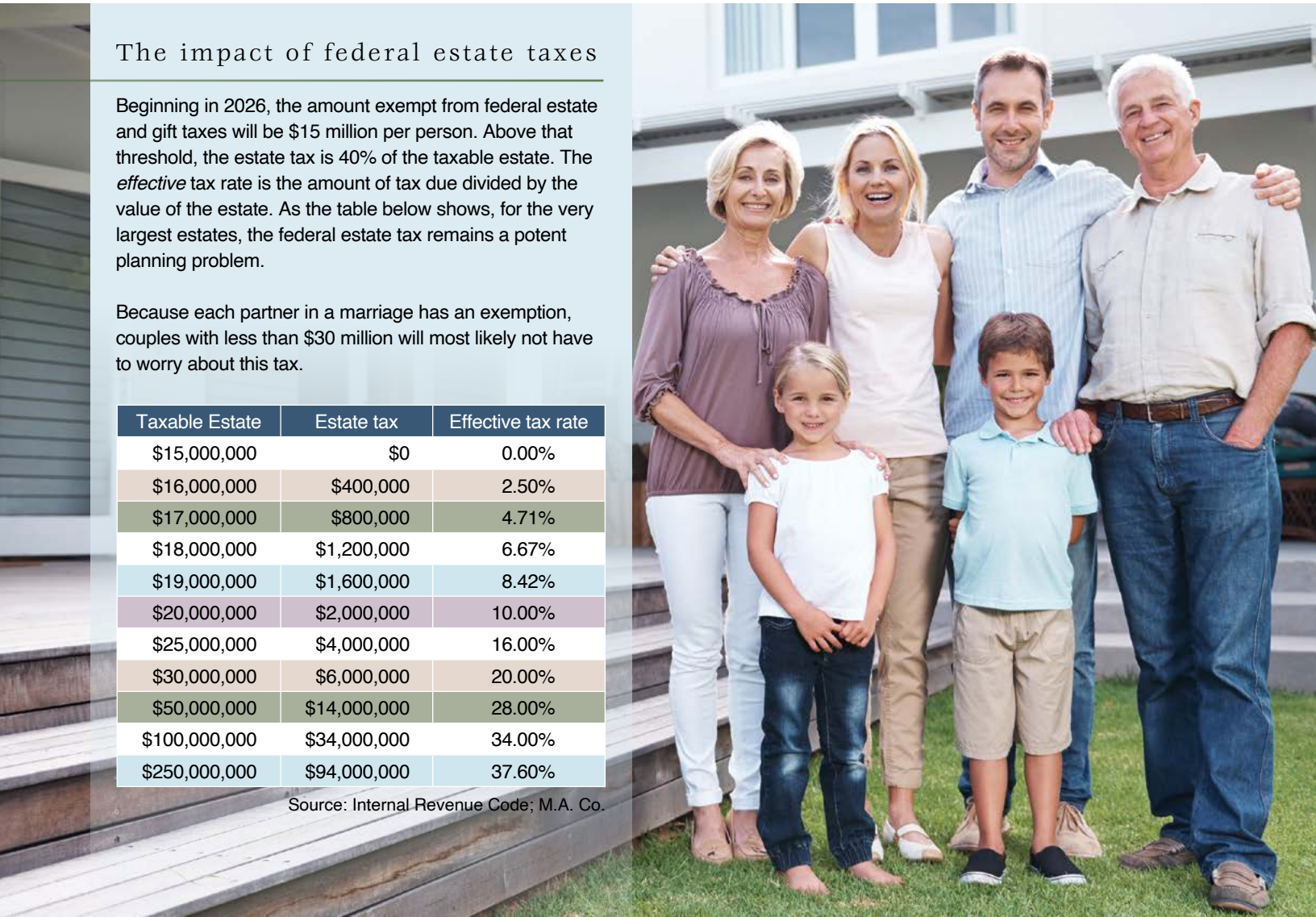
The impact of federal estate taxes

Beginning in 2026, the amount exempt from federal estate and gift taxes will be $15 million per person. Above that threshold, the estate tax is 40% of the taxable estate. The *effective* tax rate is the amount of tax due divided by the value of the estate. As the table below shows, for the very largest estates, the federal estate tax remains a potent planning problem.

Because each partner in a marriage has an exemption, couples with less than $30 million will most likely not have to worry about this tax.

Taxable Estate	Estate tax	Effective tax rate
$15,000,000	$0	0.00%
$16,000,000	$400,000	2.50%
$17,000,000	$800,000	4.71%
$18,000,000	$1,200,000	6.67%
$19,000,000	$1,600,000	8.42%
$20,000,000	$2,000,000	10.00%
$25,000,000	$4,000,000	16.00%
$30,000,000	$6,000,000	20.00%
$50,000,000	$14,000,000	28.00%
$100,000,000	$34,000,000	34.00%
$250,000,000	$94,000,000	37.60%

Source: Internal Revenue Code; M.A. Co.



also need to be considered, and they kick in at much lower levels of wealth. Six states have an inheritance tax (based upon the size of the bequest received by the heirs), and 12 states and the District of Columbia have an estate tax (determined by the total value of the estate).

Basis planning

For most families, the basis "step-up" at death will become the focus of estate planning. Inherited assets have as their tax basis their fair market value as of the date of death of the owner. This rule is generous—taxes on capital gains are effectively forgiven forever—but it actually serves the purpose of administrative convenience. A "carryover basis" approach was tried under President Carter, but it was found to be too complicated to implement, and it had to be repealed. Death now creates a "clean slate" for asset values and for the elimination of built-up capital gains, which in the past was offset by a fairly significant estate tax liability. With the reduction in the number of estates that will owe federal estate tax, the basis step-up rule becomes more important than ever.

Example. Grandfather's investment portfolio is worth $8 million, with a tax basis of $2 million. He plans to divide the portfolio among four grandchildren. If he makes a lifetime gift of the securities, and assuming that the basis is divided equally, each grandchild will have to plan for taxes on $1,500,000 worth of gains. If Grandfather holds the assets until his death, the tax on the $6 million capital gain is eliminated under IRC §1014(a), at zero estate tax cost.

Trust questions. Past estate planning practice included creation of irrevocable trusts to bypass future estate taxes. The most common example is the "credit shelter trust," created in combination with a marital trust to defer estate taxes to the death of the surviving spouse. The advantage of the credit shelter trust is that the estate tax does not apply at all at the death of the surviving spouse. The disadvantage is that there is no basis step-up for the trust assets at that time. How important is this disadvantage for smaller estates that will have no estate tax to worry about? What new strategy might be used to overcome the disadvantage?

Changed tax treatment of charitable gifts

Beginning next year, there will be three changes to the tax treatment of gifts to charity.

Non-itemizers. Those who do not itemize their deductions will get no tax benefits from their charitable giving. Starting in 2026, these folks will be allowed a $1,000 deduction for their cash gifts to qualified charities. Married couples filing jointly may claim a $2,000 deduction. There will be no income limits on this deduction, no phase-out of the benefit. However, donations to donor-advised funds won't get this treatment.

New floor. For itemizers, charitable gifts will be deductible only to the extent that they exceed 0.5% of adjusted gross income (AGI). For example, if AGI is $200,000, 0.5% of that figure is $1,000, so that amount must be subtracted from the total of charitable gifts to calculate the deduction. This rule does not apply to the non-itemizers.

Tax benefit cap. A deduction creates tax savings at one's top marginal tax bracket. For example, a taxpayer in the 20% tax bracket who gives $1,000 to a qualified charity will save $200 in income taxes, so that the net cost of the gift is only $800. Starting next year, for top taxpayers, the tax benefit will be capped at 35%. Someone in the 37% tax bracket making a $10,000 charitable gift expects a deduction to save $3,700 in income tax, but the new cap reduces the tax savings to $3,500.

These changes may have an impact on the timing of charitable giving. Affluent taxpayers may want to accelerate some of their donations into 2025 to dodge the impact of the rules next year.

There is better news for charitable giving in the new tax law—the increase in the deduction limit for charitable gifts, from 50% of the donor's AGI to 60%, enacted in the Tax Cuts and Jobs Act of 2017, was made permanent, so it won't expire at the end of the year. Unused deductions from larger charitable gifts may be carried forward for five tax years (but the carry forward expires at death).

Your next step

Confused? Don't feel badly, these are early days for what is shaping up to be a fairly radical restructuring of basic estate planning considerations. We're here to be your resource in all matters related to wealth management. In particular, keep us in mind for estate settlement and trusteeship services—that's our core expertise.

2025 estate planning review checklist

- ☐ Check beneficiary designations on retirement plans and insurance policies.
- ☐ Create a roadmap for digital assets, including passwords for important accounts.
- ☐ Include any new family members.
- ☐ Are any minor beneficiaries no longer minors? Different provisions may be appropriate for adult children.
- ☐ Make certain heirs know the locations of key documents—the will, power of attorney, and medical power of attorney.

To be a responsible adult

USA Today recently published "5 forms you should make your child sign before they leave for college" (July 30, 2025, updated August 19, 2025). Good advice, and interestingly, with one exception, these are the forms that every retiree should have as well.

FERPA authorization. This is the one that retirees don't need. Access to school records is controlled by the Federal Educational Rights and Privacy Act (FERPA). After children reach age 18, their consent is required for anyone else, including their parents, to see their school records. This applies to transcripts, tuition bills, financial aid forms, the works. Without this authorization in place, the child will have to handle all the paperwork and communication—distractions that may impede getting the best possible education.

HIPAA authorization. The Health Insurance Portability and Accountability Act (HIPAA) limits who can see medical records. Parents automatically lose access to this information once a child reaches age 18. One hopes that the authorization will never be needed, but hope is not a plan.

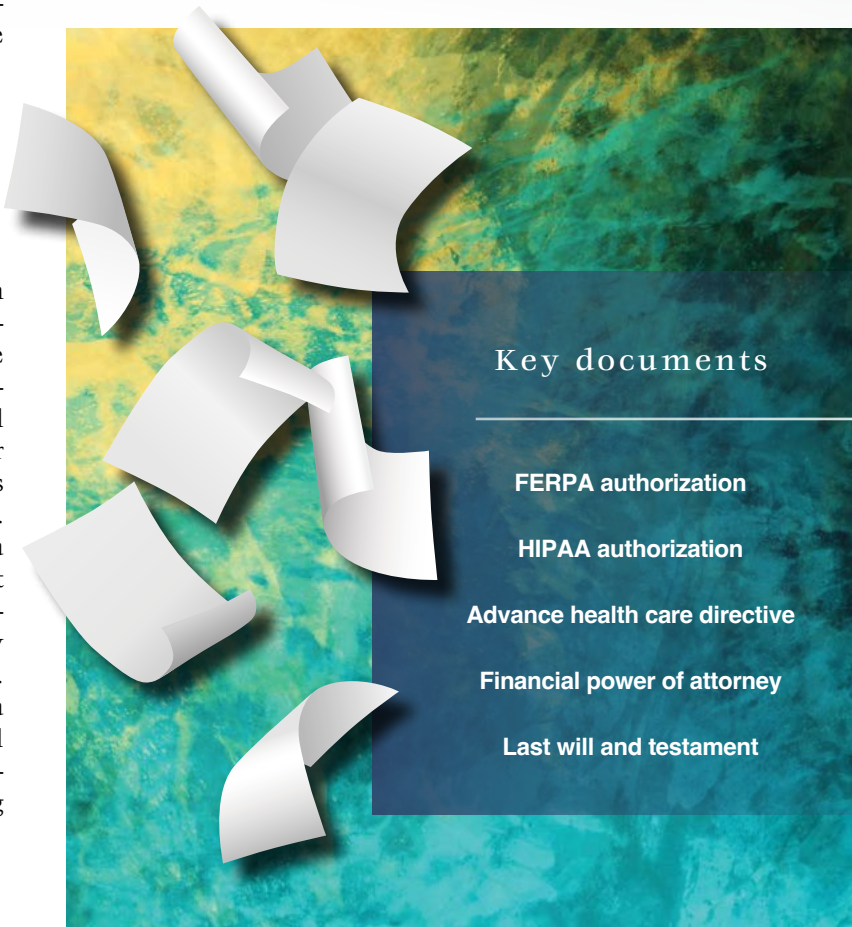
Advance health care directive. What happens when someone is unable to make medical decisions for themselves? The advance health care directive outlines the life-extending procedures that are acceptable or unacceptable and designates a person to make those medical decisions. This form seems unlikely to be needed for a young person, as opposed to a retiree, for whom it is essential. But it will be good to have it if it is ever needed.

Financial power of attorney. The easiest way for a parent to exercise financial management for a student is through a joint checking account. If the child has significant assets, a financial power of attorney will allow the parent to manage that resource on the child's behalf.

A will. Again, this is not likely to be needed for a young person, but having a will is simply sound financial planning. The will identifies an executor or personal representative for the estate, as well as a plan for distributing assets. Without a will, the laws of intestacy take over, and these laws vary from state to state.

In some sense, signing all these forms might seem to the prospective students that their childhood is being extended and that their emancipation from their parents is being reversed. The better way to understand it is that all of these precautions are part of being a responsible adult.

For retirees, especially those who are single, these forms are even more important. A medical and financial management plan at the end of life eases the burden on family and friends.



Attention to detail

When one reads that the amount exempt from federal estate tax will be $15 million in 2026, or $30 million for married couples, one might get the impression that the doubled exemption for married couples is automatic. It is not. The mechanism for that exemption to happen is called the Deceased Spousal Unused Exemption, or DSUE for short. To claim the DSUE, when a married person dies, an estate tax return must be filed—even if no estate tax will need to be paid. The DSUE is elective, and the election is only made on an estate tax return.

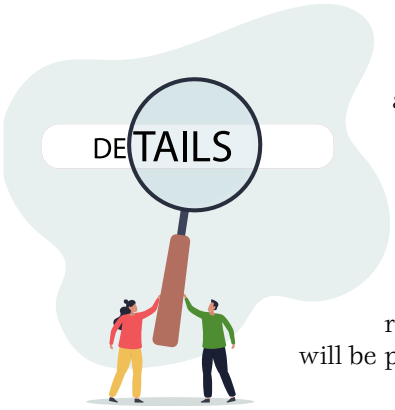
When Fay Rowland died in 2016, her estate was worth $3 million, well below the exemption equivalent in that year of $5,450,000. No estate tax would become due, so an estate tax return was not required. However, her executors requested an extension of time to file the estate tax return in order to claim the DSUE for Fay's husband, Billy. That moved the due date for the return from January 9, 2017, to July 8, 2017. Unfortunately, the executor missed the extended deadline, and the estate tax return was not mailed to the IRS until December 29, 2017. The return estimated the value of bequests that Fay made to her children and charity, and then concluded that the DSUE was $3,712,562.

Billy died just one month after the filing of Fay's estate tax return. Because his death happened after the enactment of the Tax Cuts and Jobs Act of 2017, his estate was entitled to a basic exclusion amount of $11,180,000. Adding in the DSUE, his estate tax return claimed a total exemption of $14,892,562. That brought the federal estate tax due for Billy's estate down to $4,477,555, which was timely paid.

However, when the IRS audited Billy's estate tax return, a number of shortcomings were discovered in the attempt to claim the DSUE.

First, the DSUE can only be claimed on a timely filed estate tax return, and Fay's return was not timely. No explanation for the tardiness was offered. Second, bequests to other than a surviving spouse may not be estimated, as Fay's executor did; the assets must be specifically identified and valued.

The Tax Court agreed with the IRS, saying: "Nor do we view the errors and omissions on Fay's return as a mere foot-fault. Fay's return does not allow the IRS to do the work entrusted to it by a Congress that expected the IRS to police DSUE elections." The result was a significant increase in the estate tax due from Billy's estate.



The moral of the story is that careful attention to detail is required when filing any estate tax return—even if no estate tax will be payable upon the filing.