



Federal Gift and Estate Tax Exclusion Set to Reduce as of 2026

September 20, 2022

The Gift and Estate Tax Lifetime Exclusion (federal exclusion amount) is the value of assets U.S. citizens and residents can transfer via gift or bequest to beneficiaries of an individual's choice without incurring federal gift or estate taxes. Currently, the federal exclusion amount is \$12,060,000 per person, in addition to amounts transferred to a spouse or nonprofit organization, Annual Exclusion gifts and certain payments for education and medical expenses made directly to a provider. Practically speaking, this means an individual who has not used any of their federal exclusion amount prior to 2022 may transfer up to \$12.06 million before the end of the year without having to pay a gift tax on any of the transferred assets. If an individual has used part of the federal exclusion amount previously, the remaining balance can be transferred now. To incorporate this transfer as part of estate planning, many people choose to transfer the assets into a trust for a spouse or descendants so that the assets can grow estate-tax free for the next generation.

If this type of wealth transfer planning might apply to you, please note the federal exclusion amount is set to be reduced as of January 1, 2026, to \$5 million adjusted for inflation. However, Congress could pass new legislation to reduce the amount earlier than 2026. Using the lifetime exclusion this year will ensure that individuals utilize the full federal estate tax free transfer of up to \$12.06 million. Any further increases to the exclusion amount can also be utilized at their time of implementation.

Contact your Lathrop GPM estate planning attorney to take advantage of the federal estate tax exclusion amount while you can and at any time prior to taking any transfer tax planning action.