THE ESTATE PLANNER

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Estate Planning Red Flag

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It's time to review your estate plan

The gift and estate tax exemption is now "permanent"

The One Big Beautiful Bill Act (OBBBA) has made the gift, estate and generation-skipping transfer (GST) tax exemptions permanent. This brings a great deal of certainty to estate planning. And now even fewer taxpayers need to worry about these taxes. However, this doesn't mean estate planning isn't critical.

Gift and estate tax exemption permanently increased

The main provision of the OBBBA that affects estate planners is a "permanent" increase in the federal gift and estate tax exemption to $15 million, indexed annually for inflation. The increase takes effect on January 1, 2026. (The GST tax exemption also increases to $15 million.) Currently, the exemption amount is $13.99 million, but under the Tax Cuts and Jobs Act (TCJA), it was scheduled to drop to an inflation-adjusted $5 million in 2026.

Bear in mind that tax laws are never truly permanent — they can be changed at any time through the passage of new legislation. But unlike the TCJA's exemption, the new exemption doesn't have an expiration date, providing a degree of certainty that's been lacking in recent years. Before the OBBBA, many estate planning strategies focused on taking advantage of the increased exemption before it disappeared. That's no longer the case.

Strategies to consider

Contrary to popular belief, the OBBBA doesn't signal the end of estate planning as we know it. Indeed, planning remains critical to preserve wealth, provide for loved ones and build flexibility to adapt to future tax law changes. Here are some strategies to consider:

Revisit your estate plan. If you created your plan several years ago, review your documents to be sure they don't contain formulas or amounts tied to previous exemptions. Unless you modify these provisions to reflect the new exemption, they may produce undesirable results. If your plan includes irrevocable trusts that no longer align with the current tax framework, find out whether "decanting" them — pouring them into a new trust — is an option.

Shift your focus to reducing income tax liability. When exemption amounts were smaller, estate planning strategies typically focused on removing wealth from one's estate to shield it from federal estate tax. Potential estate tax costs generally eclipsed any income tax advantages to keeping assets in one's estate. Now that estate taxes are less relevant for most people, it pays to consider strategies that minimize the impact of income taxes on your heirs.

Use a nongrantor trust to maximize charitable deductions

The One Big Beautiful Bill Act increases the standard deduction to $15,750 for single filers and $31,500 for joint filers, substantially reducing the number of individuals entitled to itemize deductions. This, in turn, limits the number entitled to deduct charitable contributions — other than a new above-the-line deduction for up to $1,000 in charitable contributions ($2,000 for joint filers).

One potential workaround is to use a trust to boost your charitable deductions. Here's how it works: You transfer assets that generate passive income (such as bonds or dividend-paying stocks) to a nongrantor trust and use the trust's income to make charitable contributions.

Because the trust isn't subject to the standard deduction or other limitations on charitable deductions, its contributions are fully deductible, offsetting the trust's income. This technique essentially allows you to claim your full standard deduction while enjoying the benefits of charitable deductions that would otherwise be lost.

For example, there are significant income tax benefits to holding onto capital assets for life (either directly or in a trust) rather than transferring them through lifetime gifts. That's because assets transferred at death enjoy a stepped-up basis equal to their fair market value at the date of death, eliminating capital gains tax on any appreciation in value. When assets are transferred by gift, your tax basis carries over to the recipient, which may trigger significant capital gains taxes if the assets are sold.

Build flexibility into your estate plan. There are no guarantees that Congress won't reduce the exemption in the future, so it's a good idea to design a plan that has the flexibility to adapt to future tax law changes. For example, consider using an irrevocable trust that removes assets from your estate but gives the trustee (or a "trust protector") the authority to take actions that would bring the assets back into your estate if that would produce a better tax outcome. There are other tools available that offer the agility to respond to changing circumstances, including special power of appointment trusts, limited powers of appointment and disclaimer trusts.

Continue to implement strategies to reduce estate tax liability if your net worth warrants it. If your net worth places you above the new exemption amount — or if it's likely that you'll exceed it in the future — continue planning to reduce your taxable estate.

Protect your assets. Regardless of your level of wealth, safeguarding your assets from frivolous lawsuits or unfounded creditors' claims is essential, especially if your professional or personal activities increase your liability exposure. There are many asset protection tools available, including liability insurance, family limited partnerships or limited liability companies, domestic asset protection trusts, and offshore trusts.

Don't overlook state taxes. Even if your estate is well below the federal exemption, you may still need to plan for state estate or inheritance taxes, which typically have much lower exemption thresholds.

Take a breath, but keep planning

OBBBA's increased, "permanent" gift and estate tax exemption provides some welcome breathing room, but it's not an invitation to ignore estate planning. Indeed, planning remains as important as ever to address non-estate tax issues, protect your wealth, and future-proof your estate. ▮

Are you prepared to inherit a windfall?

For many, the idea of receiving a large inheritance brings feelings of excitement and relief. Suddenly, years of financial worries may seemingly vanish. However, without a clear plan, your windfall can disappear as quickly as it arrived. In fact, according to the National Endowment for Financial Education, one-third of people who receive an inheritance deplete it within a few years.

When handled with care, an inheritance can help you build long-term financial security, support family members and even create a lasting legacy. But if managed without foresight, it can introduce new risks, unexpected tax liabilities and missed opportunities for growth.

Don't treat the inheritance as "found money"

An inheritance often feels different from money you've worked to earn. It can be tempting to view it as a financial bonus — an excuse to spend freely on travel, luxury purchases or major lifestyle upgrades.

Yet without considering your overall financial picture, those choices may compromise longer-term priorities, such as retirement readiness, debt reduction or college funding for your children. The key question to ask yourself isn't "What can I buy with this money?" but "How can this inheritance help me meet my goals more effectively?"

Shifting your perspective from short-term thinking to a more sustainable plan that balances today's enjoyment with tomorrow's security is the key.

Factor the tax impact

An inheritance generally isn't subject to income tax, but depending on the types of assets you inherit, they may have an impact on your tax situation going forward. For example, certain income-producing assets — such as real estate, an investment portfolio or a retirement plan — may substantially increase your taxable income or even push you into a higher tax bracket.

If you inherit an IRA or a qualified retirement plan account, such as a 401(k), be sure you understand the rules regarding the distributions of those funds.

Depending on the size of the inheritance, it may also have an impact on your estate plan. If it increases the value of your estate to a point where estate taxes become a concern, talk to your advisor about strategies for reducing those taxes and preserving as much wealth as possible for your heirs.

Build a long-term strategy

A solid financial plan can help ensure that inherited wealth supports both your current needs and future goals. A few action steps to focus on include:

Managing debt. Using part of an inheritance to eliminate high-interest debt can free up future income for savings and investment.

Creating an investment plan. How you invest inherited assets should align with your risk tolerance, time horizon and existing portfolio.

Planning for an (earlier) retirement. Receiving a windfall may allow you to retire earlier, contribute more to tax-advantaged accounts or increase your long-term income stream.

> *An inheritance often feels different from money you've worked to earn.*

Making charitable gifts. If philanthropy is a priority, careful planning can help you maximize both the impact of your gifts and available tax benefits.

Building an emergency fund. Even with significant assets, maintaining liquidity for emergencies remains essential.

Without professional guidance, it can be easy to overlook how one decision in any of these areas affects the rest of your financial picture. Contact a financial advisor for help.

Reassess your insurance coverage

After receiving a large inheritance, you may need to adjust your insurance coverage. For example, if you inherit real estate or valuable personal property, you may need to increase your property and casualty coverage.

In addition, because greater wealth makes you a more attractive target for lawsuits, consider purchasing an umbrella liability policy or increasing the coverage of an existing policy. You may also wish to purchase additional life insurance.

Take the next steps

If you've received or expect to receive an inheritance, it's important to pause before making any major financial moves. Taking the time to create a plan can transform a temporary windfall into lasting security. You'll also want to address any inherited assets in your estate plan. Contact your estate planning advisor for more information. ▮

Address mental health care with a psychiatric advance directive

One aspect of estate planning that may not always get the attention it should is addressing physical incapacity. Your plan should include detailed instructions if you become unable to make critical decisions for yourself. You can do this by including health care powers of attorney or advance directives in your estate plan.

But what if your family has a history of mental illness? Is there a way to memorialize your wishes in the event of a psychiatric episode rendering you unable to make decisions about your treatment? A psychiatric advance directive (PAD) may be the answer.

2 documents to address physical incapacity

There are two documents available to address physical incapacity: an advance health care directive (sometimes referred to as a "living will") and a health care power of attorney (HCPA). Some states allow you to combine the two in a single document.

An advance directive expresses your preferences for the use of life-sustaining medical procedures — such as artificial feeding and breathing, surgery, invasive diagnostic tests, and pain medication — specifying the situations in which these procedures should be used or withheld. For example, you might instruct health care providers to withhold treatment in the event of a coma or permanent brain damage with little or no chance of recovery or include a "do not resuscitate" order.

A document prepared in advance can't account for every scenario or contingency, however, so it's wise to pair an advance directive with an HCPA. This allows you to authorize your spouse or other trusted representative to make medical decisions or consent to medical treatment on your behalf when you're unable to do so. An HCPA can include specific instructions to your representative, as well as general guidelines or principles to follow in dealing with complex medical decisions or unanticipated circumstances.

Consider a PAD

Many states allow generic HCPAs and advance directives to address mental as well as physical health issues. But some states limit or prohibit mental health treatment decisions by general health care representatives. Around half of the states have PAD statutes, which authorize special advance directives to outline one's wishes with respect to mental health care and appoint a representative to make decisions regarding that care.

PADs may address a variety of mental health care issues, including:

- Preferred hospitals or other providers,
- Treatment therapies and medications that may be administered,
- Treatment therapies and medications that *may not* be administered, such as electroconvulsive therapy or experimental drugs,
- A statement of general values, principles or preferences to follow in making mental health care decisions, and
- Appointment of a representative authorized to make decisions and carry out your wishes with respect to mental health care in the event you're incapacitated.

Although requirements vary from state to state, to be effective, a PAD must be signed by you and your chosen representative, and in some

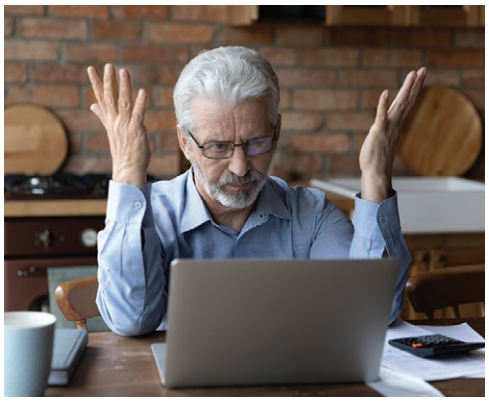
states by two witnesses. Be sure to discuss the terms of the PAD with your family, close friends, physician and any mental health care providers. To ensure the PAD is available when needed, provide copies to all the above persons, keep the original in a safe place and inform your family of its location.

Gather the facts

As mentioned, PADs are available in around half of the states. If you're concerned about mental health, for example, if mental illness runs in your family, check with your state to see if it's an option. If not, consider using generic advance directives and HCPAs to address mental health care. ▮

ESTATE PLANNING RED FLAG

You haven't properly planned for exemption portability



In estate planning, "portability" refers to a provision in the federal estate tax law that allows a surviving spouse to use any unused portion of his or her deceased spouse's federal gift and estate tax exemption. This option can be especially powerful because it allows wealth to pass more efficiently between spouses without requiring complex trust arrangements.

For 2026, the One Big Beautiful Bill Act permanently increases the gift and estate tax exemption to $15 million, indexed for inflation annually. Even with the now "permanent" high exemption amount, a portability election is still important. Permanent just means the amount doesn't have an expiration date. Lawmakers can still pass future legislation that reduces the exemption amount. This could result in the surviving spouse's estate relying on the deceased spouse's unused exemption amount to avoid unnecessary taxes.

Choosing portability can simplify planning, particularly for couples who may not have highly complex estates. Rather than creating and funding a credit shelter trust, the surviving spouse can preserve the unused exemption through a timely election on the deceased spouse's estate tax return.

That said, portability isn't always the best option for every family. For example, it only applies to the *federal* estate tax exemption — not state-level estate taxes, which may have lower thresholds and different rules. Trust planning, by contrast, can provide more control, creditor protection and tax efficiency in certain situations.

Be aware that portability isn't automatically available; it requires the deceased spouse's executor to make a portability election on a timely filed estate tax return. Unfortunately, many estates fail to make the election because they're not liable for estate tax and, therefore, aren't required to file a return.

If your spouse died within the last couple of years, and you anticipate that your estate will owe estate tax, consider having your spouse's estate file an estate tax return to elect portability. Ordinarily, an estate tax return is due within nine months after death (or 15 months with an extension), but a return solely for the purpose of making a portability election can usually be filed up to five years after death.

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