



Estate Taxes: A Window of Opportunity

By Kristi Mathisen



KRISTI MATHISEN,
JD, CPA, PFS

Kristi is LNWM's managing director of tax and financial planning. An attorney and CPA, she has more than 20 years of experience providing analysis and guidance on tax and wealth planning issues.

The amount of wealth you can pass on to heirs free of federal estate taxes has risen dramatically since 2000. Back then, it was only \$675,000 per person. By 2017, this amount was up to \$5.49 million (see box below) and starting in 2018 it has doubled — yes doubled — to \$11.18 million (over \$22 million for husband and wife).

This major change presents opportunities for estates valued at more than \$5.49 million. But there are also pitfalls. For one, the increase to the exclusion expires at the end of 2025 if not renewed by Congress. Our best estimate at this time — and the safest course in terms of planning — is that it will not be renewed.

	2017	2018-2025	2026 (Estimate)
Estate & Gift Tax Exemption: How much you can give away during your lifetime OR upon death	\$5 million per person, inflation-adjusted to \$5.49 million	\$11.18 million per person, and increasing annually for inflation	More than \$5.49 million per person due to inflation adjustments from 2017 to 2026
Generation-Skipping Transfer Tax Exemption: How much you can pass on to grandchildren and their descendants	Same	Same	Same
Estate, Gift and GST Tax Rate	40%	40%	40%

Here are things to consider doing now if your estate is worth more than \$5.49 million:

- 1. Review your will and any trust documents.** This is critical, and we advise not putting this off. Many estate planning documents (both wills and revocable trusts) use formulaic language to distribute assets to beneficiaries that is based on the amount that can be transferred tax free, i.e., the prevailing federal estate tax exclusion. These formulas, if applied using the much higher exclusion now in effect, could lead to outcomes you never intended.



FOR EXAMPLE: Ellen’s estate is valued at \$13 million. Her will specifies that at the time of her death, a trust is established for her children into which would go the maximum amount that can pass free of federal estate tax. The rest (minus any estate tax levied by her state) would go to Ellen’s favorite non-profit, a cancer research institute.

The table below shows how the exact same wording will lead to a totally different result in 2018 vs. 2017.

Scenario	Assets to Family via a Trust*	Assets to Non-Profit*
Ellen passes away in 2017	\$5.49 million	\$6.98 million
Ellen passes away in 2018	\$11.15 million	Zero

*Minus estate taxes levied at the state level.

WHAT TO DO: To avoid such dramatic and unintended consequences, you may need to revise your will or trust. For example, Ellen’s will could specify a maximum amount that would go in trust for her heirs with the remainder to the non-profit.

2. Maximize gifting. The total you can give away during your lifetime OR pass on to your heirs at death is now \$11.18 million per person. So basically, you have an extra \$5.7 million to give away tax free, at least until the end of 2025. And this extra amount will increase each year with built-in inflation adjustments. Because the law may change for 2026, we advise taking advantage of the opportunity to make gifts now. Gifts can be outright or in trust.

Other benefits of gifts made outright or through a trust during your lifetime: (1) Gifts move property that may appreciate in value out of your estate; and (2) Gifts can lower the estate tax levied by your state. Thirteen states, including Washington, levy an estate tax, in addition to the federal tax. Both Washington and Oregon impose estate taxes on property owned at death but do not tax gifts. So, lifetime gifts reduce the amount those states can tax at death.

Last but certainly not least: when you make lifetime gifts, you get the satisfaction of seeing the people and organizations you care about benefiting from your generosity.

3. Consider establishing a Generation Skipping Trust. There are many reasons to establish a trust, not just to lower estate taxes. It is beneficial to consider doing so at this time because the trust can be funded with a higher level of assets, enough to make large gifts for both children and grandchildren. For example, say you have a sizable estate consisting mostly of real estate that is likely to grow in value, and you want to provide for future generations of your family, not just your children.

A Generation-Skipping Trust (sometimes called a Dynasty Trust) could be funded with up to \$11.18 million in assets. In Washington State trusts can be in place for up to 150 years, so this would allow many generations to benefit from the trust.



What Happens in 2026?

On Jan. 1, 2026, the current estate tax exemption of \$11.18 million will expire, unless Congress acts to renew it. If you would still have sufficient wealth to be financially secure for the rest of your life, you might consider making gifts of up to \$11.18 million now to maximize the gift exclusion. You would get all the benefits from gifting described above and more likely than not, avoid any claw back if the law changes in 2026 or earlier.

FOR EXAMPLE: Tom’s estate is valued at \$13 million in 2018. Below are two scenarios with varying amount of gifting.

	Using Part of Gift Exclusion	Maximizing Gift Exclusion
Gifts to family 2018 - 2020	\$5.7 million	\$11.2 million
Assets at death in 2026	+ \$7.3 million	+ \$1.8
Total Estate	\$13 million	\$ 13 million
Exclusion at time of gifting:	- \$5.7 million	- \$11.2
Est. inflation increase 2017 - 2026	- 0.8	- 0.8
Likely net taxable estate in 2026	\$6.5 million	\$1 million

4. Consider “upstream” estate planning. At death, the value of most assets that pass on to heirs is stepped-up to the current market value. So if a house was bought for \$200,000 and is currently worth \$2 million, the heirs will inherit at a \$2 million tax basis and can then sell without paying capital gains taxes. Wealthy individuals with appreciated property may want to gift high-value assets to less wealthy elderly parents, so the tax basis can be increased when the parents pass on. With the higher estate tax exclusion, gifts that bring the parents’ estates up to less than \$11.18 million could save significant capital gains taxes in the future. This strategy may require some revision to the parents’ estate plan as well.

THE BOTTOM LINE: If your estate would have been subject to estate taxes in 2017 (valued at more than \$5.49 million), now is the time to review and perhaps change some elements of your estate plan. We are here to advise you on what would work best for you and your family given the new tax law.



Key Questions for Intentional Estate Planning

Answering these questions will help focus you on what matters most.

Learn more



ABOUT THE AUTHOR

Kristi Mathisen, JD, CPA, PFS is Managing Director of Tax and Financial Planning at Laird Norton Wealth Management. In addition, she provides guidance and advice on philanthropic strategies and estate planning to the firm's client services team and to clients directly. An attorney, CPA and Personal Financial Specialist with more than 20 years of finance-related experience, Kristi has a bachelor's degree in business administration from the University of Washington and a Juris Doctor from the University of Washington School of Law. She is a member of the Washington State and King County Bar Associations, the Washington State Society of CPAs and the American Institute of CPAs.

ABOUT LAIRD NORTON WEALTH MANAGEMENT

With nearly \$6 billion in assets under advisement, Laird Norton Wealth Management is the Northwest's premier wealth management company. Founded in 1967 to serve the financial management needs of the Laird and Norton families, the firm now provides integrated wealth management solutions to more than 700 individuals, families, business leaders, private foundations and nonprofit organizations.

801 Second Avenue, Suite 1600, Seattle WA 98104 206.464.5100 800.426.5105 lairdnortonwm.com

DISCLOSURE

All investments involve a level of risk, and past performance is not a guarantee of future investment results. The value of investments and the income derived from them can go down as well as up. Future returns are not guaranteed and a loss of principal may occur. All investment performance can be affected by general economic conditions and the extent and timing of investor participation in both the equity and fixed income markets. Fees charged by LNWM will reduce the net performance of the investment portfolio.

The information presented herein does not constitute and should not be construed as legal advice or as an offer to buy or sell any investment product or service. Any opinions or investment planning solutions herein described may not be suitable for all investors nor apply to all situations. All opinions expressed are those of Laird Norton Wealth Management and are current only as of the date appearing on this material.

Any accounting, business or tax advice contained in this presentation (or communication, including attachments and enclosures) is not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties.

Some investments may not be publicly traded and they may only allow redemptions at certain times conditioned on various notice provisions and other factors as more fully described in the related offering and subscription documents provided at the time of the investment. Due to the nature of these types of investment funds, hedge funds, fund of funds, and similar partnership-like investment vehicles, they should be considered illiquid. In addition to restrictions on redemption, they often include holdback provisions that may delay a full redemption for several months or longer. There is no guarantee that the amount of the initial investment can be received upon redemption. Due to the nature of the tax reporting that may be available from these types of investments, clients should expect to extend the filing of their tax returns.

A benchmark is an unmanaged index, and its performance does not include any advisory fees, transaction costs or other charges that may be incurred in connection with your investments. Indices are statistical composites and are shown for informational purposes only. It is not possible to invest directly in an index. Indices are unmanaged and are not subject to management fees. Any benchmark whose return is shown for comparison purposes may include different holdings, a different number of holdings, and a different degree of investment in individual securities, industries or economic sectors than the investments and/or investment accounts to which it is compared. Comparisons of individual account or portfolio performance to an index or benchmark composed of indices are unreliable as indicators of future performance of an actual account or portfolio. Actual performance presented represents past performance net of investment management fees unless otherwise noted. Other fees, such as custodial fees or transaction related fees may not be reflected in the actual performance results shown.

Certain information herein has been obtained from public third party data sources, outside funds and investment managers. Although we believe this information to be reliable, no representation or warranty, expressed or implied, is made, and no liability is accepted by Laird Norton Wealth Management or any of its officers, agents or affiliates as to the accuracy, completeness or correctness of the information herein contained. In addition, due to the nature of an investment or the date of the creation of the attached presentation, some values shown or used in the calculation of performance may be based on estimates that are subject to change.

All data presented is current only as of the date thereon shown. Laird Norton Wealth Management is comprised of two distinct entities that may offer similar services to clients. Laird Norton Trust Company is a State of Washington chartered trust company. Its wholly owned subsidiary, Laird Norton Tyee Asset Strategies, LLC, is an Investment Advisor registered with the Securities and Exchange Commission. Such registration does not imply any level of skill or expertise.