



Cornhusker Economics

Sunsetting Tax Provisions. Is Your Estate Plan Affected?

It is never too early to begin thinking about estate planning, how you want to transfer your assets to the next generation, and how your decisions may be taxed to the next generation. Those decisions may need to be adjusted as some provisions are set to expire at the end of 2025.

Tax Cut & Jobs Act

The Tax Cuts and Jobs Act (TCJA) was signed into law in December of 2017. This provided the most significant overhaul of the U.S. tax code in decades that brought about numerous changes across the tax system including changing the estate tax exemption threshold from \$5.49 million per individual in 2017 to \$11.18 million in 2018. This amount is adjusted annually for inflation. In 2024 the filing threshold is \$13.61 million. For married couples, this effectively doubled the exemption to \$27.22 million, allowing a person to transfer a larger portion of their wealth tax-free to their heirs.

TCJA has significant implications for estate planning strategies and transfer of intergenerational wealth. Most moderate-sized estates may now fall below the increased exemption threshold, simplifying estate planning processes and reducing administrative burdens on the federal level. However, this is only a temporary relief as the TCJA estate tax exemption will expire at the end of 2025 and will revert to earlier filing exemptions amounts unless congress extends or changes the provision. On November 26, 2019, the IRS clarified that individuals

taking advantage of the increased gift tax exclusion amount in effect from 2018 to 2025 will not be penalized after 2025 when the exclusion amount is scheduled to drop to pre-2018 levels. If congress does not extend or change the provisions, individuals may want to re-evaluate their estate plan as this exemption is only if a person passes away before the end of 2025.

Inheritance Tax

Another thing to consider is while Nebraska does not have an estate or gift tax, Nebraska is one of the six states that does have an inheritance tax. When Nebraskans inherit land or other property including cash, they must pay inheritance taxes to the county where the property is located. The exception to inheritance tax is if the property is transferred to a surviving spouse or anyone under the age of 22. Beginning in 2023, Nebraska Legislative Bill (LB) 310 changed inheritance tax law by increasing amounts of property that is exempt, changed classes of heirs, and decreased the tax rate. LB 310 increased the exempt amount from \$40,000 to \$100,000 for close relatives including children, siblings, grandchildren, parents, and grandparents. Anything over \$100,000 is subject to a 1% inheritance tax. Distant relatives (aunts, uncles, nieces, nephews, and their descendants) are now exempt up to \$40,000. Anything above \$40,000 is subject to 11% inheritance tax. Non-related individuals are now exempt up to \$25,000 at an inheritance tax rate of 15%.

Calculating the Nebraska inheritance tax payments is an integral aspect of the estate settlement procedure. Typically, this responsibility falls on the attorney handling the legal aspects of the estate settlement. Valuation of the property at fair market value is essential for determining the amount owed in inheritance taxes. These taxes are typically remitted to the county or counties where the inherited property is situated. It's important to note that property inheritance may be contingent upon the payment of inheritance taxes.

Gift Tax

Depending on the size of a person's estate they may want to consider multiple ways of passing on their assets including gifting some assets while they are alive. The federal gift tax exemption is \$18,000 per person in 2024. If an individual gifts another person more than \$18,000 per year, then that amount must be reported to the IRS using Form 709. The amount gifted over \$18,000 will count against the gifter's lifetime gift or estate tax exemption threshold.

Summary

While living, gifting cash, property, and valued assets to one or more individuals can be used as a mechanism to reduce one's estate value, therefore reducing estate and inheritance taxes upon death. There are other ways to bring about reduced taxes upon one's death. It is always best to consult with one's accountant and an attorney that works with estate planning to review and update estate plans.

Works Cited

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