William Blair

Private Wealth Management

Your Estate Plan

Capture the Golden Opportunity Before It Sunsets

In 2017, the enactment of The Tax Cuts and Jobs Act (TCJA) led to a significant increase in the federal estate and gift tax exemption. The exemption reached historical highs of $13.99M per taxpayer in 2025 ($27.98M for a married couple) and can be used to make gifts during life or to pass wealth estate tax free at death.

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Absent further legislation, the TCJA will sunset on January 1, 2026, reverting to 2017 levels, adjusted for inflation, or approximately $7M per taxpayer. As a result, wealthy individuals and families will be subject to significantly more federal estate tax in 2026 than they are today (table 1). And many taxpayers who do not have a taxable estate today will find themselves exposed to federal estate tax in 2026.

This changing landscape means wealthy taxpayers facing an estate tax liability in 2026 have a limited window of opportunity to take advantage of the excess exemption by implementing wealth transfer strategies to achieve significant estate tax savings.

Estate tax example before and after the sunset without further planning

Assumptions
- Net Worth: $30M
- Federal Estate Exemption: $13.99M per taxpayer
- Estate Tax Rate: 40%
- Married Couple

TABLE 1	Federal Estate Tax Exemption	Net Worth	Taxable Estatate as of 2026	Federal Estate Tax Liability
Estate Tax Exemption as of 2025	$27.98M	$30M	$2.02M	$0.81M
Estate Tax Exemption as of 2026	$14M	$30M	$16M	$6.4M
Additional Liability Due to Sunset				$5.59M

We can use the same assumptions as in table 1 to quantify the potential benefits of utilizing the exemption before it sunsets (table 2). In the first scenario, one spouse makes a $13.99M gift to fully utilize their current exemption. In the second scenario, no gifts are made. The following chart illustrates the estate tax implications:

Estate tax example after the sunset with and without further planning

TABLE 2	Value of Estate	Gift to Heirs Before 2026	Taxable Estate as of 2026	Remaining Exemption as of 2026	Federal Estate Tax Liability
Scenario 1: $13.99M Gift Now	$30M	$13.99M	$16.01M	$7M	$3.6M
Scenario 2: No Gift	$30M	$0	$30M	$14M	$6.4M
Estate Tax Savings					$2.8M

As we can see, even having only one spouse utilize the current exemption provides significant estate tax savings. Note that potential estate tax benefits double if both spouses utilize the exemption. Additionally, this example doesn't incorporate the substantial benefit of having all future appreciation on the gifted assets growing outside their taxable estate.

It's important to note that based on how the IRS calculates a taxpayer's remaining exemption after a gift, the optimal strategy does require significant gifts to be made, and it does make a difference as to how married taxpayers allocate gifts among themselves. In the above example, by having one spouse make the entire $13.99M gift, the non-gifting spouse still retains their full estate exemption of $7M. If the couple had instead each gifted $6.99M, each would only have approximately $10K of exemption remaining once the exemption dropped to $7M in 2026.

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A common concern among taxpayers is whether the IRS will later attempt to claw back gifts made now in excess of the 2026 exemption amount. To taxpayers' relief, the IRS issued regulations back in 2019 confirming that individuals taking advantage of the increased exemption amount in effect now will not be adversely impacted.

While individuals can utilize the excess exemption by making outright gifts, a better approach is to consider using irrevocable trusts such as Dynasty Trusts or Spousal Lifetime Access Trusts (SLATs). These trusts can benefit multiple future generations and can offer better asset protection than outright gifts. SLATs have the added benefit of allowing a couple indirect access to the assets transferred via the spouse's interest as a beneficiary of the SLAT. Accordingly, SLATs have become particularly popular in recent years.

Wealthy individuals who are considering taking advantage of this golden opportunity to execute significant wealth transfer should ensure sufficient assets remain to meet their lifestyle spending needs and other planning goals.

Although new legislation could be enacted before 2026, families should assess their estate plans now, considering the potential expiration of TCJA provisions. Waiting to see what develops might not allow for enough time to implement a wealth transfer strategy and may result in a lost opportunity to significantly reduce estate tax. Please contact your William Blair wealth advisor to discuss your financial situation and if it makes sense to contemplate an estate plan that makes use of the exemption before it sunsets.