Chester County Community Foundation
Professional Advisor Gift Planning E-Newsletter –
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Planning for a sunset: Lock in a higher exemption, unlock a legacy

Without legislation to prevent it, the sunsetting of current estate tax laws at the end of 2025 will dramatically reduce the federal estate tax exemption from $13.61 million per person in 2024 to approximately $7 million in 2026 (this includes adjustments for inflation). This change would affect many high net-worth individuals and families, likely exposing many more estates to federal estate taxes.

It is impossible to predict whether or not legislation will prevent the sunset. Even so, it is important for advisors to prepare for client discussions and start considering estate planning strategies now, especially techniques that incorporate multi-generational gifts and charitable planning.

Indeed, for a client who is charitably-inclined, making larger lifetime gifts to charity and arranging for charitable bequests will help reduce the client's taxable estate because of the charitable estate and gift tax deduction. Donor-advised, field-of-interest, designated, unrestricted, and endowment funds at the Community Foundation are flexible and effective charitable recipients of both lifetime and estate gifts.

For some clients, you may wish to begin exploring a comprehensive, multi-generational wealth transfer plan, potentially using key tax-planning vehicles:

Charitable lead trust
Charitable lead trusts (CLTs) may be particularly effective in the current environment. These trusts can provide income to your client's fund at the Community Foundation for a set period of time, with the remaining assets passing to family members. Right now, the higher exemption allows for potentially significant initial funding of such trusts. This is because the value of the remainder interest counts toward the client's estate and gift tax exemption.

Generation-skipping trust
A generation-skipping trust is an irrevocable trust that can benefit a client's grandchildren and later generations. This trust utilizes a client's generation-skipping transfer (GST) tax exemption (which parallels the estate and gift tax exemption). This type of trust could allow a client to take advantage of the higher exemption before it potentially decreases in 2026. It is possible under some states' laws for these trusts to go on for many generations in a "dynasty" format, such that each generation benefits from the trust's income (and potentially principal for health and education) without the trust's assets being included in the beneficiaries' estates for estate tax purposes.

Multi-generational fund at the Community Foundation
Alongside a charitable lead trust or generation-skipping trust, or as a standalone, a client can establish a donor-advised fund at the Community Foundation that can function much like a family foundation, with successive generations serving as advisors, or the Community Foundation stepping in after the first or second generation, to recommend grants from the fund to carry on a tradition of supporting the causes that have been most important to the client during the client's lifetime.

The team at the Chester County Community Foundation looks forward to working with you to achieve your clients' long-term charitable goals, even in the midst of uncertainty concerning the estate tax laws.

The team at the Community Foundation is a resource and sounding board as you serve your philanthropic clients. We understand the charitable side of the equation and are happy to serve as a secondary source as you manage the primary relationship with your clients. This newsletter is provided for informational purposes only. It is not intended as legal, accounting, or financial planning advice.

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