

Money Talks February 2023

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It is rare that you see generosity and taxes used in the same sentence. But it is possible to be generous and to save or reduce taxes. Some changes in the tax law permit both.

Your family, friends, and neighbors will be happy to hear that you are permitted to make gifts up to \$17,000 during 2023 without a gift tax return being required. The annual exclusion amount is adjusted for inflation and that adjustment results in the ability to make gifts up to \$17,000 to anyone. There is no limit on the number of people that can be the recipients of your largesse. This is an increase from \$16,000 in 2022.

With Valentine's Day approaching, you can let your spouse know that the unlimited marital deduction, for estate and gift tax purposes, is still intact. Upon your death, you can leave your entire estate to your spouse without the imposition of federal estate tax. As a bonus, the federal estate exemption equivalent amount for 2023 increases to \$12,920,000 from the prior year's \$12,060,000. This amount is adjusted annually for inflation, under current tax law.

If your entire estate's value is less than this amount, there will not be a federal estate tax. If the value of your estate and your spouse's estate, combined, exceeds this amount, there are planning opportunities to reduce any potential tax. Each of your estates can avail the use of this exemption, so a couple's combined exemption equivalent is \$25,840,000. If one spouse's estate is less than the exemption equivalent, the unused portion can be carried over to the surviving spouse, but this requires an affirmative election on the Federal Estate Tax Return that will need to be filed to preserve this election, even if no tax is due. For those whose estate may exceed the exemption amount, there may be additional planning opportunities that you should discuss with your estate advisor.

A word of caution, under current tax law, the amount of the exemption equivalent is due to sunset at the end of 2025. The exemption equivalent will then revert to \$5 million adjusted for inflation. The current estimate of the exemption equivalent for 2026 is a little above \$6 million.

Another provision under Iowa law can also reduce Iowa Inheritance Tax. There is a gradual process of elimination of this tax. Under current Iowa tax law, there is no inheritance tax for amounts left to the decedent's spouse or linear descendants or ascendants. Amounts left to others may be subject to Iowa Inheritance tax, but there is a phased reduction in the tax liability. The tax is computed using the old tax rates, but for decedents in 2023, this tax is reduced by 60%. In 2024, the tax will be reduced by 80% and then eliminated in 2025.

Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances. To the extent this material concerns tax matters, it is not intended or written to be used by a taxpayer for purposes of avoiding penalties that may be imposed by law.