

M INTELLIGENCE

## LEVERAGE INCREASES TO GIFT, ESTATE, AND GST EXEMPTIONS — BEFORE THEY SUNSET

The Tax Cuts and Jobs Act (TCJA) of 2017 increased the gift, estate, and generation-skipping transfer (GST) tax exemptions for the years 2018 through 2025.

A key provision of TCJA is that the exemptions are indexed for inflation using the chained CPI, a reportedly more accurate measure of the consumer price index.

The actual and estimated increases for 2023, 2024, and 2025, and the resulting total current exemptions are as follows:

**Table 1: 2023–2025 Actual and Estimated Gift, Estate, and GST Exemptions**

	INDIVIDUAL			MARRIED COUPLE			
	Total	\$ Increase	% Increase	Total	\$ Increase	% Increase	
<b>2022</b>	12,060,000			24,120,000			Actual
<b>2023</b>	12,920,000	860,000	7.13%	25,840,000	1,720,000	7.13%	Actual
<b>2024</b>	13,660,000	740,000	5.73%	27,320,000	1,480,000	5.73%	Estimated
<b>2025</b>	14,160,000	500,000	3.66%	28,320,000	1,000,000	3.66%	Estimated

By law, these exemptions “sunset” (that is, they will be cut in half) on December 31, 2025, making it a “use it or lose” proposition. Using the estate tax exemption to purchase life insurance in a trust is a smart and effective wealth transfer strategy. Table 2 illustrates the

wealth transferred by using the 2023–2025 exemption increases to fund life insurance in a dynasty trust for two “bookend” product types: No-Lapse Universal Life (UL) and Variable UL.

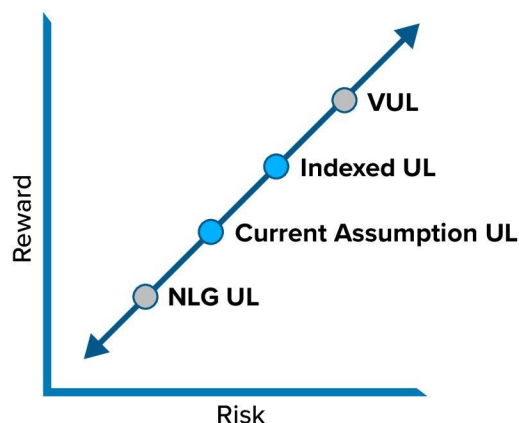
**Table 2: Death Benefit (MEC) Purchased with Actual and Estimated 2023-2025 Exemptions (000,000)**

Age	NLG* — AGE 121			VUL @ 7% GROSS		
	Male	Female	SUL	Male	Female	SUL**
<b>50</b>	\$10.2	\$12.5	\$27.3	\$16.3	\$17.2	\$50.0
<b>55</b>	\$8.6	\$10.1	\$18.9	\$12.4	\$13.1	\$37.4
<b>60</b>	\$7.1	\$7.4	\$17.7	\$10.0	\$10.2	\$27.8
<b>65</b>	\$5.5	\$5.8	\$13.4	\$7.8	\$8.1	\$20.8
<b>70</b>	\$4.2	\$4.7	\$8.2	\$5.6	\$6.6	\$15.2
<b>75</b>	\$3.4	\$3.9	\$7.1	\$4.1	\$4.5	\$11.1

\*No-Lapse Guarantee

\*\*Survivorship Universal Life

## RISK VERSUS RETURN PROFILE OF THE MAJOR PRODUCT CHOICES



Using the estate tax exemption to purchase life insurance in a trust is a smart and effective wealth transfer strategy.

### IT IS IMPORTANT TO NOTE:

1. Clients may have substantial remaining exemptions in addition to the estimated increases.
2. There are many options for using the available exemptions and estimated increases:
  - a. The clients could gift discounted assets, such as commercial real estate or closely held business interests, to a dynasty trust, further leveraging the available exemptions.
  - b. Clients who are not yet ready to make substantial gifts can lend assets to the trust under favorable terms. On very short notice, those loans can be easily converted into gifts.
  - c. Existing split-dollar plans could be terminated (“rollout”) or existing policies could be paid-up.
3. Although many of the policies illustrated above are modified endowment contracts (MECs), MECs can be avoided by investing gifted amounts in a trust-owned side fund and paid into the policy over time.
4. All illustrations assume second best rates (generally, preferred nontobacco), solving for a maximum level death benefit to age 121 at a 7% gross rate of return (ROR) (variable products only).
5. 2024 and 2025 estate tax exemption increases are estimates and will vary based on actual data.
6. Product pricing is subject to full underwriting and product availability at the time of application.
7. Numbers are not valid without accompanying carrier ledger illustrations.

Cornerstone Advisors  
(610) 437-1375 | [cornerstoneadvisors.com](https://cornerstoneadvisors.com)

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M Financial Group | 1125 NW Couch Street, Suite 900 | Portland, OR 97209 | 503.238.1813 | fax 503.238.1815 | [mfin.com](https://mfin.com)