Lowenstein Sandler

Client Alert

Trusts & Estates

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One Big Beautiful Bill and Three Key Planning Notes

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Last week, President Donald Trump signed into law the One Big Beautiful Bill Act (OBBBA). At nearly 900 pages in length, OBBBA's size lives up to its name by enacting sweeping changes to estate and gift taxes, income taxes, business deductions, and more. The following summary is intended to focus on the primary ways OBBBA impacts gift and estate planning and to highlight three key points that high-net-worth individuals and families should know.

1. Increased Exemption Amounts. Beginning Jan. 1, 2026, OBBBA increases an individual's federal exemption amount for estate, gift, and generation-skipping transfer (GST) tax purposes to $15 million per donor or decedent. The gift, estate, and GST exemptions will be indexed annually for inflation beginning in 2027.

2. No Scheduled Sunset. Under the Tax Cuts and Jobs Act of 2017, the federal exemption amount ($13.99 million for gifts made and decedents dying in 2025) was scheduled to sunset automatically at the end of 2025, resulting in a sharp decrease in exemption and a potential loss of planning opportunities. OBBBA, on the other hand, has no scheduled sunset date and will not be altered absent a future act of Congress. This welcome permanence alleviates the uncertainty previously associated with the temporary nature of the federal exemption.

3. Continued Need To Evaluate Planning Opportunities. High-net-worth individuals and families should not be drawn into the misconception that OBBBA's enactment is an excuse to avoid proactive estate planning. On the contrary, several factors underscore a continued need to evaluate gift and estate planning opportunities:

- Moving Assets Out of the Estate at Low Values. It still makes sense for high-net-worth individuals to consider lifetime gifts using their federal gift tax exemption to shelter the growth in appreciating assets. Dynastic trusts, GRATs, charitable split-interest trusts, and other estate planning vehicles can still be used to further reduce the ultimate tax bill.
- State Estate and Inheritance Taxes. Twelve states and the District of Columbia continue to impose their own estate taxes, with exemptions significantly lower than the federal amount. New York, for example, currently allows a $7.16 million exemption subject to an estate tax "cliff." That is, estates that exceed 105 percent of this exemption amount are subject to tax on their entire value, not just the amount that exceeds the exemption.
- Future Tax Law Changes. While OBBBA offers a meaningful level of certainty for the continued existence of increased federal exemptions, there is no guarantee that exemptions will remain at this level indefinitely. Changes in the political environment could lead to the passage of new laws and a future reduction.
- Strategic Planning for Asset Growth. Even if the increased federal exemptions exists in their new form for years to come, sheltering asset growth remains an extremely powerful tool. For example, if a donor gifts a $1 million asset to an irrevocable trust, the remaining exemption amount for that donor is reduced by $1 million. However, once that asset is gifted, none of its future appreciation typically will be counted against the donor's federal gift and estate tax exemption.
- Maximizing Basis Step-Up. The step-up in income tax basis afforded to assets held at death continues to offer substantial benefits. In fact, for many individuals, basis planning will now be more important than planning to avoid the estate tax. For some individuals, there will be an inherent tension between gifting assets to remove them from the taxable estate and holding highly appreciated assets until death to benefit from the step-up in basis. Only a periodic analysis of assets, basis, and fair market values can determine the most tax-advantageous plan for a particular client. In some cases, making timely, ongoing use of complex trust planning techniques can allow families to achieve both gift/estate and income tax savings.
- Nontax Considerations. Even for those clients for whom the exemption is now large enough to avoid federal estate tax, there remain a multitude of nontax reasons for high-net-worth individuals to engage in estate planning, such as business succession, privacy, creditor protection, and family dynamics.

Overall, while OBBBA's enactment offers significant benefits for high-net-worth individuals and families, its passage does not eliminate the need to evaluate potential gift and estate planning strategies in the short term. We welcome you to consult with a member of Lowenstein Sandler's Trusts & Estates group for further consideration of your planning goals in light of the new legislation.

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