Prime Capital FINANCIAL

WORRIED ABOUT THE POTENTIAL CHANGES COMING IN THE 2026 TAX YEAR?

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The Upcoming Sunset of the High Estate Tax Exemption Amount

The high estate tax exemption amount that we have right now thanks to the Tax Cuts and Jobs Act of 2017—which for 2024 is $13.61 million for individuals or $27.22 million per couple—is set to go back down to around half of that, or around $6 million per person or so adjusted when for inflation for the 2026 tax year under current law. That's coming up fast!

What it means is that if you pass away without a tax-efficient estate plan in place and you happen to own highly-valued land or real estate, a valuable business, highly-appreciated stocks, or other expensive assets that total more than $6 million+, you could be leaving your loved ones with a higher tax bill when you pass away.

After a lifetime spent amassing wealth, carefully choosing investments that match your risk tolerance, and avoiding excessive spending or the purchase of unnecessary items, is leaving behind a huge tax bill as your legacy truly your idea of financial success?

We see this as a pending problem coming toward us that you can potentially take action on. So, what should you do? Maybe if you don't care about your beneficiaries, then it doesn't matter, and you don't have to do anything at all. Maybe you don't care if a lot of your wealth goes to the IRS.

But if you do care, first you should call your estate attorney. And if you don't have one, call us and we will find several in our network for you to consider. Set up a meeting with that estate attorney and your financial advisor—and your tax professional—so we can work as a team to brainstorm strategies to help you mitigate estate taxes.

The second thing you can do is to consider doing some "recapture planning." What is recapture planning, you say? It's basically just a fancy term for going out and buying life insurance. We call it recapture because it's not about protecting your life; instead, it's trying to recapture some of the taxes your estate is going to have to pay so that your beneficiaries can have the liquidity to be able to pay them. In most cases, life insurance is tax-free to individuals named as beneficiaries on the policy.

But something to watch out for in purchasing insurance is that the value of the insurance policy is added to your estate value, unless it's properly designed into a special trust that moves it off of your estate. That's why we will have to work carefully with your whole team to create your plan if you own a lot of assets. As a simple example, let's say John and Mary have an estate valued at $10 million. Let's say they also own an insurance policy that will leave another $5 million, taking their total estate value up to $15

million. In 2026 and beyond, they may have an estate tax problem that can potentially be mitigated with proper planning now.

It's important to consider all of your assets in your estate plan. For instance, maybe you have a family asset like a farm that isn't liquid, but it's very valuable. But maybe your kids don't want it, and plan to sell. Maybe you want to sell it, too, but you don't want to do that while you're alive because you'll owe too much in taxes. There are options that may include a trust, using your lifetime gift tax exclusion (also set to expire for the 2026 tax year), and life insurance that could benefit the whole multigenerational family. Those are the types of opportunities your team should look for.

The SECURE Act's Impact on Taxes Could Impact More People

For the many people who don't have estates that total more than $6 million, there was another piece of legislation enacted in 2019 that may dramatically affect your heirs and loved ones that you need to understand.

Under the SECURE Act, something called the "stretch IRA" was eliminated. Prior to the law going into effect, non-spousal beneficiaries of inherited traditional (non-Roth) retirement accounts like IRAs and 401(k)s could stretch RMDs (required minimum distributions) on the accounts over their entire life expectancies. This allowed younger heirs to take smaller distributions over decades, deferring taxes while the accounts grew. They also had the option to pass on the IRAs to future generations, further delaying tax payments.

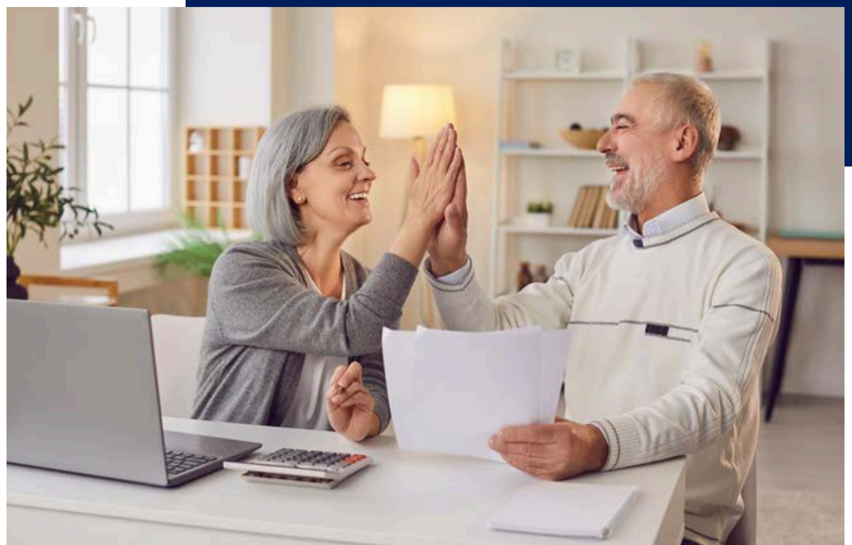
The SECURE Act limited which non-spousal heirs could stretch traditional IRA accounts. Now, only **"eligible designated beneficiaries" (EDBs)** can stretch payments over their life expectancies, and all other non-spousal heirs must take RMDs and empty the accounts within 10 years of inheritance, paying taxes on the amounts withdrawn yearly.

Now, your children have to withdraw all that money you left them within 10 years and pay ordinary income taxes on the money within the 10-year timeframe. (Remember that with traditional IRA and 401(k) and similar accounts, taxes have been **deferred—no** income taxes have been paid on them yet.) Your children will have to add the RMDs to their income they are already pulling in from their own work. If they are highly-paid individuals, they could be looking at 45 to 50% being taxed on these distributions just because of their high income brackets. In your estate plan, you may want to leave your taxable IRAs to your children who make less income, and find other assets for your high-earners.

You may also want to look closer at Roth IRA accounts, which still have to be emptied within 10 years of inheritance by a non-spousal beneficiary if you pass away, but are tax-free as long as they have been in existence for at least five years, because you used already-taxed money to contribute to them.

Your children may want to leave the inherited Roth IRA alone until the 10th year, allowing it to potentially compound (historically the stock market generates an average 7% return). Then in the 10th year, they must empty the account per SECURE Act rules, but the money and any additional gains will be tax-free. They can then turn around and take that money and create their own tax-advantaged multigenerational wealth plan for your grandchildren and future generations.

Working carefully with your team comprised of your estate attorney, CPA and financial advisor, you may want to accelerate Roth conversions as part of your estate plan, taking money out of traditional IRAs and 401(k)s and putting them into Roth accounts. You will pay income taxes in the amounts converted, and conversions cannot be undone, but they may make financial sense for you when you and your team do the math.



Each estate plan is completely unique because your situation and estate planning goals are completely unique. Let's talk about estate planning strategies that can transfer tax-advantaged wealth, and let's talk sooner rather than later, especially with the sunset coming up.

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