
# Wealth Transfer Tax Fundamentals

For high-net-worth (HNW) and ultra-high-net-worth (UHNW) individuals (especially business owners and multi-generational wealth stewards), the federal transfer tax system presents both a challenge and an opportunity. The estate tax, gift tax, and generation-skipping transfer tax (GSTT) are designed to limit the tax-free transfer of significant wealth, yet strategic planning can help mitigate their impact. Mastering these rules is not just about compliance, it's about crafting sophisticated, tax-efficient strategies that preserve wealth, maintain business continuity, and optimize legacy planning. CPAs who understand how these taxes interact can offer invaluable guidance, helping clients structure their affairs to minimize tax burdens and maximize long-term family wealth.

## Estate Tax

The federal estate tax applies to the transfer of a decedent's assets at death. It is imposed on the gross estate, which includes all assets owned or controlled by the decedent, such as real estate, investments, closely held business interests, life insurance proceeds (if the policy is owned by the decedent), and retirement accounts. The tax is calculated based on the fair market value of the assets at death, with deductions available for debts, funeral expenses, charitable bequests, and transfers to a surviving spouse. The taxable estate is then reduced by the estate tax exemption ($13.99 million per individual in 2025, indexed for inflation), with any excess taxed at a top federal rate of 40%.

Proper estate tax planning often involves strategies such as lifetime gifting, valuation discounts for minority interests in closely held businesses, and using trusts to minimize taxable transfers. Assets that pass to a surviving spouse under the marital deduction are generally not subject to estate tax, and any unused exemption may be transferred to the surviving spouse through portability. However, assets included in the estate generally receive a step-up in basis, reducing capital gains taxes for heirs.

| Filing Threshold for Year of Death Reference | |
|---|---|
| YEAR OF DEATH | IF AMOUNT DESCRIBED ABOVE EXCEEDS: |
| 2018 | $11,180,000 |
| 2019 | $11,400,000 |
| 2020 | $11,580,000 |
| 2021 | $11,700,000 |
| 2022 | $12,060,000 |
| 2023 | $12,920,000 |
| 2024 | $13,610,000 |
| 2025 | $13,990,000 |

Historical data demonstrates awareness of the nature of the exemption and inflation adjustment.
2018 was the first year the exemptions jumped up under the Trump tax cuts. Since then, estate planners have been talking about planning in light of the 2026 "sunset" with clients.

## Gift Tax

The gift tax applies to transfers of assets during life for which the donor does not receive full consideration in return. Unlike the estate tax, which applies only at death, the gift tax ensures that individuals cannot avoid transfer taxes by gifting assets before they die. However, the annual gift tax exclusion allows donors to give up to $19,000 per recipient in 2025 (adjusted for inflation) without using their lifetime exemption, which is the same as (and unified with) the estate tax exemption ($13.99 million in 2025). Gifts that exceed the annual exclusion amount must be reported on IRS Form 709, and they reduce the donor's lifetime exemption.

Certain transfers are exempt from gift tax, including tuition payments made directly to an educational institution, payments for medical expenses made directly to a provider, and gifts to a U.S. citizen spouse. Lifetime gifting strategies can help reduce the size of a taxable estate, shift appreciation to younger generations, and leverage valuation discounts. However, CPAs must be aware of potential pitfalls, such as the loss of step-up in basis for gifted assets and the impact of "gift-splitting" when spouses jointly make gifts. Gifts that are typically not subject to the gift tax include:

- School tuition and education payments
- Charitable donations
- Medical expenses
- Gifts to spouses

## Generation-Skipping Transfer Tax (GSTT)

The GSTT is a separate tax designed to prevent individuals from avoiding estate and gift taxes by transferring assets directly to "skip persons" (typically grandchildren or more remote descendants). Learn more about "skip persons" in "6 Elements CPAs Should Know About the Generation-Skipping Transfer Tax." This tax applies in addition to the gift or estate tax and is levied at a flat 40% rate on transfers that exceed the available GSTT exemption (also $13.99 million per individual in 2025). The GSTT applies to three types of transfers: direct skips (outright gifts to skip persons), taxable distributions (distributions from a trust to a skip person), and taxable terminations (when a trust's non-skip beneficiary dies, leaving only skip persons as beneficiaries).

Effective GSTT planning often involves using generation-skipping trusts, such as dynasty trusts. Dynasty Trusts can allow assets to grow free from estate taxation for multiple generations. Proper allocation of the GSTT exemption to these trusts can result in significant long-term tax savings. CPAs should be mindful of how the GSTT interacts with estate and gift tax planning, particularly when working with trusts and multigenerational wealth transfers. The GSTT operates under its own rules. While the gift and estate tax exemptions have a "unified" exemption amount (the same), the GSTT exemption is not unified with the gift and estate tax exemptions.

## Wealth Transfer Tax Awareness is Critical

Being aware of how these taxes may impact your HNW and UHNW clients is important. To try and mitigate your client's tax burden, ensure you partner with tax-smart wealth advisors. By proactively addressing estate and gift tax implications, CPAs can help clients preserve assets, minimize tax liabilities, and ensure their legacy is passed on efficiently.

Sources:

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