Expected Increase to Lifetime Federal Estate Tax Exemption Amount in 2023

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A Brief Recent History of Federal Estate Taxes

Prior to the effective date of the Tax Cuts and Jobs Act of 2017 (TCJA), the lifetime federal estate tax exemption amount for a single person was $5,490,000.[1] Post TCJA, the 2017 lifetime federal estate tax exemption amount for a single person was substantially increased to $11,180,000. Since the inception of TCJA, the lifetime federal estate tax exemption amount, which is adjusted annually for inflation, has raised slowly but steadily to the present amount of $12,060,000.

Expected Increase for 2023

A prevailing theme of much of 2022 has been the high level of inflation, and as such, a larger than normal increase of the lifetime federal estate tax exemption amount, must be expected. The expected, although not officially announced, 2023 lifetime federal estate tax exemption amount is $12,920,000 for a single person ($25,840,000 for a married couple)[2]. This $860,000 increase would mark the *highest* annual increase in the Estate Tax Exemption amount since the inception of the TCJA.

Eyes on 2026

With the exemption amounts and provisions of the TCJA due to sunset in 2026, the expected increase of $860,000 ($1,720,000 per married couple) highlights an important opportunity for individuals and married couples that have completely used up their lifetime federal estate tax exemption amounts. Likewise, with a common Democratic campaign theme of drastically lowering the federal estate tax exemption amounts to below-TCJA amounts, the 2023 increase could provide greater opportunity for clients to use up record-high lifetime exemption amounts.

The TCJA provides that the lifetime federal estate tax exemption will revert to $5 million (adjusted for inflation) on January 1, 2026. Nevertheless, the IRS has clarified that if any of the lifetime federal estate tax exemption amount in excess of $5 million is used prior to 2026, a taxpayer will not lose his or her use of the higher exemption amount, no matter the exemption amount at the time of his or her death. However, any unused exemption over $5 million could be lost if not used before 2026.

If you think you may benefit from the expected increase in the lifetime federal estate tax exemption amount, please contact the author of this article or any attorney in Frost Brown Todd's Estate Planning & Administration Group. You can also visit our Tax Law Defined® Blog for insights into new developments and trending topics in state, local and federal tax administration.

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[1] Frisch, D., 2022. *Council Post: How The Tax Cuts And Jobs Act Of 2017 Affects Estate Taxes*. [online] Forbes. Available at: <https://www.forbes.com/sites/forbesfinancecouncil/2018/06/27/how-the-tax-cuts-and-jobs-act-of-2017-affects-estate-taxes/?sh=386638a96cf9> [Accessed 9 October 2022].

[2] Phillips Erb, K., 2022. *Your First Look at 2023 Tax Brackets, Deductions, and Credits (2)*. [online] News.bloombergtax.com. Available at: <https://news.bloombergtax.com/tax-insights-and-commentary/your-first-look-at-2023-tax-brackets-deductions-and-credits> [Accessed 9 October 2022].