

## Estate Tax Update

### Federal Estate Tax, Gift Tax, and Generation-Skipping Tax Exemptions

The 2024 federal exemption against estate and gift taxes is \$13,610,000 per person. This is an increase over the 2023 exemption, which was \$12,920,000 per person (the increase reflects an inflation adjustment). The exemption is expected to drop by 50% at the end of 2025. Gifts and estates in excess of the exemption amount are subject to a 40% federal estate tax. The federal generation-skipping transfer tax exemption was also increased to \$13,610,000 per person.

### State Estate Tax Exemption

The 2024 Washington State estate tax exemption is currently \$2,193,000 per person, the same rate as 2023. The law states that the Washington State exemption increases based on the consumer price index for the Seattle-Tacoma-Bremerton area. However, in 2018 the index was changed to the Seattle-Tacoma-Bellevue index. Without a corresponding change to the law, the State has no index to use and thus, the exemption remains unchanged. If the law is changed to reference the new index, then this rate should increase. Washington estates in excess of the exemption amount are subject to a 10% - 20% Washington State Estate Tax.

### Federal Gift Tax Annual Exclusion

The federal annual gift tax exclusion increased to \$18,000 per person, per donee. This is an increase from the 2023 exclusion amount of \$17,000.

### Federal and State Tax Summary

The chart below outlines the federal and state exemptions and tax rates for 2017 through 2024.

Year	Federal Estate Tax		Gift Tax			GST Tax		WA State Estate Tax	
	Rate	Exemption	Rate	Exemption	Annual Exclusion	Rate	Exemption	Rate	Exemption
2017	40%	\$5.49M	40%	\$5.49M	\$14,000	40%	\$5.49M	10%-20%	\$2.129M
2018	40%	\$11.18M	40%	\$11.18M	\$15,000	40%	\$11.18M	10%-20%	\$2.193M
2019	40%	\$11.40M	40%	\$11.40M	\$15,000	40%	\$11.40M	10%-20%	\$2.193M
2020	40%	\$11.58M	40%	\$11.58M	\$15,000	40%	\$11.58M	10%-20%	\$2.193M
2021	40%	\$11.70M	40%	\$11.70M	\$15,000	40%	\$11.70M	10%-20%	\$2.193M
2022	40%	\$12.06M	40%	\$12.06M	\$16,000	40%	\$12.06M	10%-20%	\$2.193M
2023	40%	\$12.92M	40%	\$12.92M	\$17,000	40%	\$12.92M	10%-20%	\$2.193M
2024	40%	\$13.61M	40%	\$13.61M	\$18,000	40%	\$13.61M	10%-20%	\$2.193M

## Estate Planning Update

### **The IRS Is Slowly Modernizing.**

In 2020, due to the pandemic, the IRS began allowing taxpayers to electronically sign certain tax forms and returns. In 2021, the IRS extended this privilege and after a long-anticipated wait, on October 17, 2023, the IRS finally made it permanent. Going forward, the following forms can be submitted with digital signatures: the estate tax return series (Form 706, Form 706-A, Form 706-GS, Form 706-QDT, etc.), the form required to report information acquired from a decedent (Form 8971), gift tax returns (Form 709), and the application for extension of time to file a return (Form 4868). Paper copies of these returns are still required to be filed, but at least they can now be e-signed. Remember, with the IRS, progress is slow!

### **The Secure Act and Inherited IRAs...The Saga Continues.**

The SECURE Act, effective 2020, significantly altered the rules governing inherited individual retirement accounts (inherited IRAs). It introduced the “10-Year Rule,” which requires most non-spousal beneficiaries of inherited IRAs to withdraw the entire balance of the account within 10 years of the original participant’s death. Most non-spousal beneficiaries of inherited IRAs can no longer “stretch” distributions over their lifetimes.

Taxpayers believed this 10-year rule meant that the inherited IRA beneficiaries were exempt from annual Required Minimum Distributions (“RMDs”) during this 10-year span and many never took such RMDs. In February 2022, the IRS released a proposed regulation stating that beneficiaries inheriting accounts from decedents who were past their RMD age must adhere to both annual RMDs and the 10-year depletion requirement. This prompted some “feedback” to the IRS, particularly with respect to any attempt to impose penalties for failure to take distributions in 2021 and 2022. To address this “feedback,” the IRS announced in October 2022 that it would waive RMD penalties for 2021 and 2022.

However, with the regulation being a proposed regulation, this left unanswered questions about RMD requirements for 2023 and beyond. To address this, the IRS issued Notice 2023-54, which waived penalties for individuals who failed to take RMDs in 2023. Thus, beneficiaries of inherited IRAs will not pay penalties for failing to take RMDs in years 2021 through 2023.

### **The Secure Act and Required Minimum Distributions.**

The original SECURE Act raised the starting age for RMDs from age 70½ to age 72 for those born in 1951 or later. In December 2022, the SECURE Act 2.0 further raised the starting age for RMDs depending on your year of birth. Your RMDs must begin as follows:

- Individuals born in 1960 or later – the starting age for your RMDs is now 75.
- Individuals born between 1952 and 1959 – the starting age for your RMDs is 73.
- Individuals born in 1951 – the starting age for your RMDs is now extended to 2024 (age 73).
- Individuals born before 1951 – you were already taking RMDs and the changes of SECURE 2.0 did not affect your RMD schedule.

### **New Option For Leftover 529 Funds.**

Despite the rise of college tuition, many parents and grandparents find that they have funds remaining in a beneficiary’s 529 plan. In the past, their options were limited to (1) naming a new beneficiary of the 529 account, or (2) taking a refund and paying income tax and a penalty. Starting in 2024, a third option will be available. Account owners will be able to roll over \$35,000 of unused 529 assets into a beneficiary’s Roth IRA, tax-free, without a penalty for non-qualified withdrawals. This is a lifetime limit placed on an account owner. In other words, an account owner with an account for child 1 worth \$35,000 and an account for child 2 worth \$35,000 will only be able to roll over an aggregate of \$35,000, not \$35,000 per child.

There are some limitations to this option. In order to do the rollover: (1) you must have owned the 529 account for at least 15 years, (2) your rollover cannot exceed the annual Roth contribution limit (which in 2024 is \$7,000), and (3) the beneficiary of the 529 plan must also be the beneficiary of the Roth IRA and he or she must have earned income in the year of (at least) the amount of the rollover.

## New Reporting Requirement For LLCs, Partnerships, and Corporations.

On January 1, 2024, the *Corporate Transparency Act* (“CTA”) will take effect, requiring most small partnerships, limited liability companies, and closely-held corporations to report information about their *beneficial owners* to the Financial Crimes Enforcement Network (“FinCEN”).

A *beneficial owner* is an individual who exercises substantial control over the legal entity (e.g., LLC manager, corporate officer, etc.) or who owns at least 25% of the entity.

The CTA requires companies to provide the following information about its beneficial owners:

1. Full legal name
2. Date of birth
3. Residential address
4. US passport or Driver’s license number.

Entities formed or registered **before January 1, 2024**, must file their initial reports by January 1, 2025.

Entities formed or registered **on or after January 1, 2024 and before January 1, 2025**, must file the initial reports within 90 days of formation or registration.

Entities formed or registered **on or after January 1, 2025** will have 30 days to file their initial reports.

*Note, as of the date of writing this newsletter, the IRS has not released its reporting forms and does not have its online reporting system up and running.*

Failure to comply with the CTA reporting obligation may result in a fine of \$500 for each day of noncompliance and/or up to two years in prison.

The goal of the CTA is to help law enforcement combat money laundering and other financial crimes. As such, the beneficial ownership information will be held in a “secure nonpublic database” and will only be available to government law enforcement agencies.

**SCAM ALERT:** *FinCEN has been notified of recent fraudulent attempts to solicit information from individuals and entities who may be subject to reporting requirements under the Corporate Transparency Act. The fraudulent correspondence may be titled “Important Compliance Notice” and asks the recipient to click on a URL or to scan a QR code. FinCEN does not send unsolicited requests and you should not respond to these fraudulent messages, click on any links, or scan any QR codes within these messages.*