



# IRS CHANGES INHERITANCE RULES: PROTECTING YOUR LEGACY

The IRS recently updated some rules about trusts that could make your heirs accidentally liable for capital gains taxes.\* It's another quiet change that could severely impact families trying to maximize their legacies.

## What Changed Under the New IRS Rules?

Under New IRS Rules, assets inside irrevocable trusts may not receive a step-up in basis unless those assets are included in the taxable estate upon death.

If your estate strategy includes an irrevocable grantor trust, you should work with an attorney and review your trust to avoid saddling heirs with unexpected tax bills.

Typically, assets inherited at death receive a step-up in cost basis to the current fair market value, which eliminates any capital gains achieved during the giver's lifetime.

However, under the updated rules, any assets held in irrevocable grantor trusts (used by many to limit estate taxes and protect assets from judgments or creditors) will not receive that step-up in basis unless they are included in the taxable estate.\* Your loved ones could accidentally inherit a massive tax bill depending on how the trust is set up.

## Why It's Essential to Review Your Estate Plan

Changes like this make it critical to review your estate plan regularly. This 2023 change is just one of many that are likely coming in the years ahead.

For example, current estate tax exemption amounts (\$13.61 million per person and \$27.22 million for a couple in 2024) will expire at the end of 2025.\*\* That means that if the government doesn't extend the current rules, the estate tax exemption reverts to the 2017 amount of about half of today's limit. Many more families could suddenly become exposed to massive tax bills.

If leaving a legacy to your loved ones is important to you, reviewing your estate strategy for red flags is vital. Given the fluid nature of tax regulations, taking proactive measures now can safeguard your family's financial future.

Sources:

\* <https://www.kiplinger.com/retirement/irs-changed-rules-on-your-childrens-inheritance>

\*\* <https://www.fidelity.com/learning-center/wealth-management-insights/TCJA-sunset-strategies>

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