



Estate and Gift Tax Exclusion Increased

by Tim Clements

Effective January 1, 2026 under the One Big Beautiful Bill Act (OBBBA), the federal estate and gift tax exclusion increased to \$15 million per individual (or \$30 million per married couple), with future adjustments for inflation. Although the increased exclusion was made “permanent” under the Act, it may still be changed or repealed by a future Congress or administration. High-net-worth clients should take full advantage of what may be a limited window for significant planning options.

Generation-Skipping Transfer (GST) Tax Exemption

The federal GST tax exemption also increased to \$15 million per individual beginning January 1, 2026. This change is particularly relevant for gifts or bequests made to “skip persons” (such as grandchildren) or to trusts subject to GST tax. Despite the increase, careful planning is still needed to make full use of this exemption.

Unlike the federal estate and gift tax exclusion, the increased GST tax exemption is not “portable” – meaning that unless both spouses’ GST exemptions are used during life, they may be forfeited at the first death. And like the federal estate and gift tax exclusion, the increased GST tax exemption is also subject to a potential repeal if the political winds change. For clients and their families focused on multi-generational planning, now is the time to “use it or lose it” by fully sheltering appreciating assets from the generation skipping tax in an irrevocable trust. Careful allocation of exemption is the key to maximizing tax efficiency and wealth for future generations.



SALT Deduction Cap Raised — But with Limits

Retroactive to January 1, 2025, the cap on deductions for state and local taxes (SALT) increased from \$10,000 to \$40,000. This is especially beneficial for residents in high-tax states.

However, the increased cap phases out for high-income earners:

- For those with modified adjusted gross income (MAGI) between \$500,000 and \$600,000, the cap is reduced by 30 percent of the excess MAGI.
- The deduction is completely phased out for taxpayers with MAGI of \$600,000 or more.

OBBBA New Benefits and Limitations for Charitable Giving

OBBBA introduces new benefits and limitations for charitable giving:

- The 60 percent limitation for cash contributions to qualified charities is now “permanent.”
- Standard deduction filers can now take an additional \$1,000 charitable deduction (\$2,000 for joint filers).
- Itemizers are subject to a new 0.5 percent floor, meaning charitable deductions are only allowed to the extent that total contributions exceed 0.5 percent of adjusted gross income (AGI) before losses.

To maximize deductibility, the new 0.5 percent floor encourages consolidating charitable giving in a single tax year. For high-net-worth individuals, this is the perfect opportunity to fund or expand a private foundation. Donor advised funds may also provide an option for maximizing charitable giving in a single year while providing flexibility in the choice of charities and the timing of distributions.

New Eligible 529 Plan Expenses

OBBBA expands the definition of qualified education expenses for K-12 beyond only tuition to also include books, materials, testing fees, dual enrollment fees, educational therapies and tutoring costs. Previously, 529 funds could only be applied to tuition expenses up to \$10,000 annually.

Account owners can begin using 529 funds for the new expenses as of July 5, 2025. The legislation now allows K-12 qualified education expenses for:

- Tuition.
- Curriculum and curricular materials.
- Books or other instructional materials.
- Online educational materials.
- Tuition for tutoring or educational classes outside of the home, including at a tutoring facility. The tutor cannot be related to the student and must qualify as one of the following:
 - A licensed teacher,
 - A current or former teacher at an eligible educational institution, or
 - A subject matter expert in the relevant subject.
- Fees for a nationally standardized achievement test, an Advanced Placement examination, or any college admissions/entrance exam (e.g., SAT, ACT, etc.).
- Fees for dual enrollment in an institution of higher education.
- Educational therapies for students with disabilities provided by a licensed or accredited practitioner or provider, including occupational, behavioral, physical and speech-language therapies.

The legislation applies to K-12 attendance or enrollment at a public, private or religious elementary or secondary school.

Beginning January 1, 2026, the total limit for all K-12 expenses will rise to \$20,000 per year (from \$10,000).

529 funds can now be used on qualified post-secondary credentialing expenses if the beneficiary is enrolled in a recognized post-secondary credential program. To qualify, credential programs must be one of the following:

- Authorized by the Workforce Innovation and Opportunity Act.
- A military credential.
- Approved by the federal or state government.
- Aligned with other approved post-secondary credential organizations.

As of July 5, 2025, the law allows tuition, fees, books, supplies and equipment required for participation, as well as fees for testing or continuing education if required to obtain or maintain the credential.

Rollovers from 529 accounts to ABLE accounts

A provision allowing 529 savers to roll funds to an ABLE account for the beneficiary or a member of the family of the beneficiary was previously set to expire on December 31, 2025. However, the new legislation has removed this expiration date, meaning rollovers from 529 accounts to ABLE accounts are now permitted beyond 2025.

ABLE accounts are tax-advantaged savings accounts for individuals with disabilities, used to pay for disability-related expenses without jeopardizing eligibility for means-tested public benefits like Medicaid and Supplemental Security Income (SSI). They allow beneficiaries to save and invest for qualified disability expenses, which include education, housing, transportation, healthcare and assistive technology.

Primary uses:

- Pay for disability-related expenses: The money in an ABLE account can be used for a wide range of "qualified disability expenses" (QDEs).
- Preserve public benefits: A major purpose is to allow individuals to save money without exceeding asset limits for programs like SSI and Medicaid, which can be critical for maintaining essential support.
- Fund housing and employment: ABLE accounts can be used for housing costs like down payments and mortgages, as well as employment training and support services.
- Cover healthcare and wellness: Funds can be used for medical care, therapy, personal support services, and general wellness expenses.
- Support education: Money can be used for educational expenses, including tuition and related costs.

Key features:

- Tax-free growth: Earnings on the investments within an ABLE account are tax-free as long as the funds are used for qualified expenses.
- Anyone can contribute: Friends, family, and the account beneficiary can contribute money to the account, subject to annual limits.
- Protections for public benefits: For SSI, balances below $\$100,000$ do not count as assets, meaning the account holder can save up to this amount without impacting their benefits.

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