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Once Removed: **Estate Planning Inflation Adjustments for 2026**

Episode 52 Summary

Estate and tax planning is often influenced by specific numbers and thresholds, such as the estate/gift tax exemption, the GST tax exemption, the annual exclusion amount and income tax brackets. These numbers are periodically adjusted for inflation. This episode summarizes inflation adjustments for 2026 and provides guidance on how the new numbers might affect planning.

Transcript:

(0:00):

Hello and welcome back.

I'm Steve Murphy, a trust and estates attorney with McGuireWoods LLP. And this is Legacy Planning Once Removed my podcast on estate planning, taxes, family, legacy, and everything else on my clients' minds.

Well, here we are as I record this, it's January 2026 and let me say Happy New Year. And on this episode, we'll talk about some important updates for this coming year.

On this podcast, we help people with estate planning, but we also help them think through their overall legacy, how to frame it and how to work towards it.

And we have a tagline.

We say: Walk Like You Leave Footprints.

In our planning discussions, there are some specific numbers that we try to keep in mind related to state tax, gift tax and annual gifting. And a lot of these numbers are really on our client's minds, and they're adjusted for inflation almost every year.

(01:03):

These inflation adjustments for 2026 are released by the IRS, and I think there are three, maybe four numbers that we should really keep in mind as we talk to our clients about estate planning.

The first number, which is sort of an inflation adjustment, is the amount that an individual can pass free of any gift or estate tax during life and upon death. It's called that estate and gift tax exemption amount. It's actually technically called the basic exclusion amount.

And under current law, that amount per person is $15 million. That's the number for 2026.

In 2027 and later years, that number will be adjusted for inflation and that's obviously a great deal of money.

So, when clients think about gifting in 2026 or they think about their estate plan and how much they could pass to various individuals, we want to keep that number in mind. $15 million per person, per donor.

And remember that for married couples through some certain elections and other steps, they can double up their exemptions and pass a total of $30 million free of any gift and estate tax.

Now, that exemption amount would be reduced by the amount of gifts that an individual makes during life that are sheltered by that exemption. And I've talked about that in some other episodes.

So, this first number, this important estate and gift tax exemption amount, $15 million for 2026.

And the second inflation adjustment is related. That's the amount that an individual can use to pass assets to grandchildren or persons in similar generations free of a second tax called the generation-skipping transfer tax.

(03:02):

You can also use that exemption to shelter gifts to trusts, to benefit grandchildren and further descendants without any transfer tax in the future.

And again, I've talked about that concept of generation-skipping transfer tax on some other episodes.

So, the amount of generation-skipping transfer tax exemption for 2026 again is $15 million per donor.

The third important inflation adjustment is based on a concept we call the annual exclusion for gifts. That's the amount that a donor can give to essentially anyone in the world without using any gift tax exemption and without paying gift tax.

For calendar year 2026, that number is $19,000 per recipient. And again, that's per recipient.

So as clients are thinking about whether to make those kinds of gifts in 2026, then they could start by making these very generous but relatively small gifts to various individuals. And the benefit of those annual exclusion gifts is it doesn't use any of their gift or estate tax exemption.

Now, on a related topic, there's also an amount that a person can give to a non-US citizen spouse each year without using any gift tax exemption. And that's a little bit different of an amount.

That number for 2026 adjusted for inflation is $194,000.

And I like to bring this up just to remind clients that for gifts to spouses, the rules are different. And in this case, it matters whether that spouse is a US citizen or a non-US citizen.

(04:54):

So, keep those rules in mind as you think about planning that might involve a spouse.

And then the fourth number, the fourth inflation adjustment I like to point out is the point at which an estate or trust starts to pay income tax at the highest marginal rate, at that highest tax bracket.

For 2026, estate and trusts will start to pay income tax at the highest marginal rate once they earn income of $16,000. That's not a typo, that is a low number.

Compare that to the amount of income at which a married couple filing jointly will start to pay income tax at the highest marginal rate for 2026.

For that married couple, they'll start to pay tax at the highest marginal rate at $768,700.

So, what does that mean?

That means that estates and trusts generally would pay income tax at a higher marginal rate than an

Individual would. But when we talk about income taxation of trusts, I like to remind everyone of just the overall purposes of trusts, and we talk about that in episode seven.

(06:07):

So, as you think about administering trusts or potential distributions of trusts, it's always helpful to think about income tax implications, but again, maybe taxes shouldn't drive the conversation.

So, as you start to plan out your 2026 gifting or any updates to your estate plan, keep these numbers in mind.

But again, I would say keep your overall strategies and goals in mind.

On this podcast, we like to talk about taxes as a factor to consider, but it really shouldn't drive this process.

And if you properly structure your gifting and estate plan, then you can carry out your goals while minimizing those kinds of tax implications.

I'm Steve Murphy and this has been Legacy Planning Once removed my podcast on thoughtful legacy planning.

Thanks for listening.

And until next time: Walk like you leave footprints.