

Much of the planning discussion around the upcoming sunset of the Tax Cuts and Jobs Act has focused on the truly wealthy client who has likely been aware of their potential estate tax liability for years. There's another type of client, however, who is about to be introduced to this issue in a meaningful way for the first time come January 2026. Clients who are currently worth \$20MM, as an example, could be worth over \$23MM at that point, and find themselves with a potential estate tax liability of over \$4MM absent other planning. To make matters worse, this may be the first time these clients have had to even think about this issue.

Why? Back in 2016, prior to the passage of the TCJA the estate tax exemption was a healthy \$5.45MM for individuals, and nearly \$11MM for a married couple. Clients who are worth \$20MM today were likely just over that threshold back in 2016. They weathered the economic impact of COVID, saw their net worth grow significantly, and are now in for a rude awakening: Where they were previously just over the exemption for a married couple pre-sunset, they could be as much as \$9.6MM over the exemption absent some sort of action from Congress.

If they are students of history, these clients have also just witnessed how much change in estate tax law there can be over a rather brief period of time. They have evidence to support a wait and see approach rather than taking action, particularly when faced with the expense, in terms of both money and time, of doing any significant planning. Unless, of course, there is a way to put some extremely cost-effective, low commitment, maximally flexible planning in place before the sunset. Fortunately, there is now a strategy designed specifically for these clients.

It combines three key elements:

- The ability to “crawl” into a \$5MM insurance policy with a very modest premium commitment.
- Protection against possible inclusion in their estate based on personal ownership by doubling the coverage to \$10MM for the first four policy years.
- The guaranteed option to buy up to an additional \$5MM of coverage between January 2026 and June 2026 if desired.

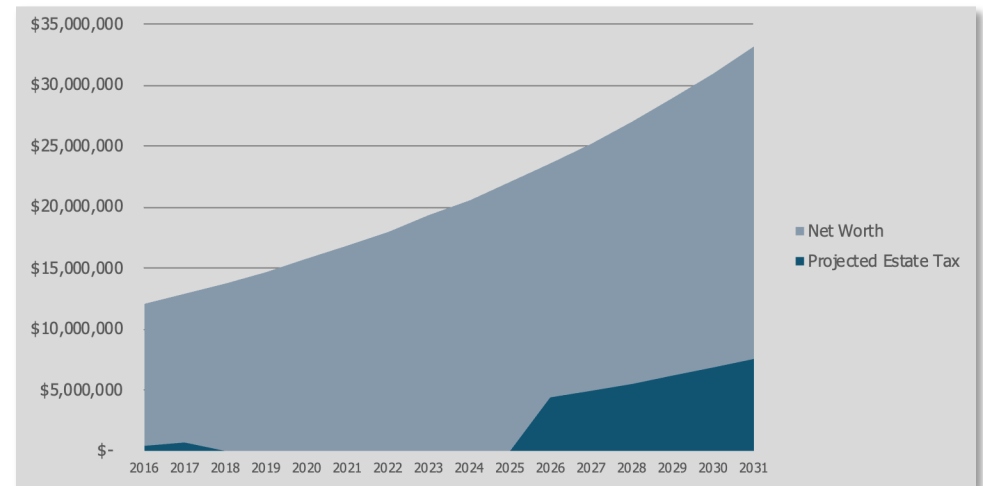
Figure 1, to the right, shows the period just described, from 2016 to 2026, as well as projecting out another five years to 2031. It demonstrates the growth of this client's net worth from \$12MM in 2016 to over \$33.1MM by 2031, as well as their projected estate tax liability of nearly \$7.6MM. And without action from Congress, that potential bill will continue to grow each and every year as their net worth grows.

NicheAlert

The Estate Planning Crawl In

Moderately wealthy clients could be in for a shock in early 2026. Based on the increased estate tax exemption limits put in place with the passage of the Tax Cuts and Jobs Act (TCJA) in 2017, they've enjoyed a period of “blissful ignorance” regarding just how large an estate tax bill their heirs could receive from the IRS.

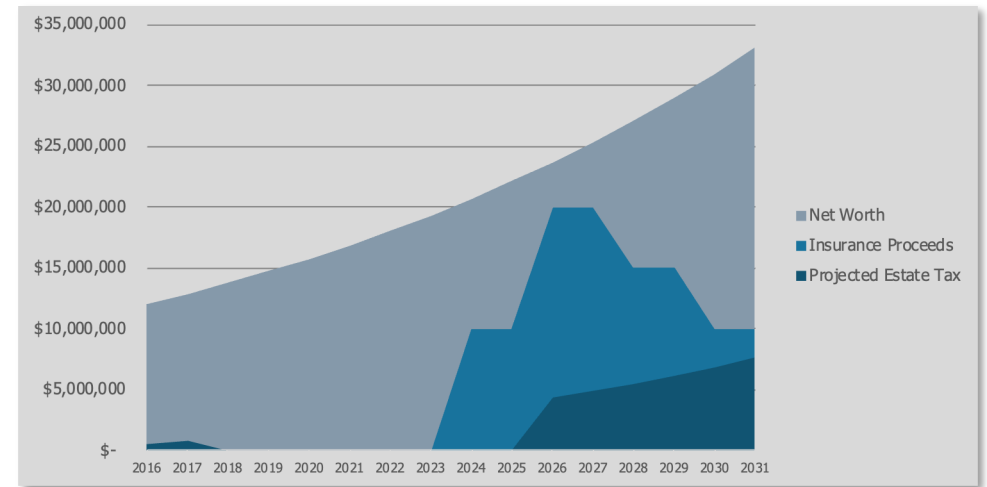
Figure 1: Growth of Net Worth and Potential Estate Tax Liability



However, if that same client pursued the strategy described above, their insurance design has them well positioned. It buys them time to complete the estate planning work that becomes now well worth the time and money it will take to complete upon the sunset. Figure 2, to the right, adds the insurance proceeds over the same period described above. The insurance amounts include the doubling of the face amount in the first four policy years for both policies referenced above. This results in coverage amounts as follows:

- Year 1: \$10MM
- Year 2: \$10MM
- Year 3: \$20MM (Assumes execution of purchase option)
- Year 4: \$20MM
- Year 5: \$15MM
- Year 6: \$15MM
- Years 7+: \$10MM

Figure 2: Growth of Net Worth, Potential Estate Tax Liability and Insurance Coverage



At this point, most will see how this meets two of the three criteria set out above: Maximum flexibility and low commitment, as this approach does not require much in terms of legal work by postponing the need for an ILIT. That leaves the issue of being extremely cost effective as the sole remaining obstacle, and for a pair of 65-year-olds, the first two years of premium could total as low as \$55,000. Admittedly, that funding level is not going to support the full \$10MM long term, but it allows this client to ease into a more robust planning discussion while avoiding the exposure to a massive tax bill in the interim.

This is just one example of the strategies available to help clients plan for an uncertain estate tax planning future.

READY TO PUT US TO WORK ON YOUR NEXT CASE?

Assumptions include: 3% inflation rate for the estate tax exemption, estate tax rate increase to 45% in 2026, 7% growth rate on client net worth.

The contents of this document should not be considered as tax or legal advice. Any information or guidance provided is solely for educational or informational purposes and should not be relied upon as a substitute for professional advice. It is always recommended to consult with a licensed financial or legal advisor for specific guidance related to your individual situation.