

# Federal Estate, Gift and GST Tax Highlights from the One Big Beautiful Bill Act

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**PRACTICES** Family Wealth and Estate Planning, Private Clients and Estate Planning

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The recently enacted One Big Beautiful Bill Act (OBBBA) brings sweeping and permanent changes to the federal estate, gift and generation-skipping transfer (GST) tax landscape. Most notably, it significantly increases the exemption amounts and eliminates the previously scheduled reduction set to take effect in 2026. These developments present important implications for individuals and families engaged in estate planning, particularly those with estates approaching or exceeding the new thresholds. Below are key highlights of the legislation and strategic considerations for clients.

## **The following are the estate and gift tax highlights:**

1. **Permanent Increase in Exemption Amounts:** The OBBBA “permanently” raises the federal estate, gift and generation-skipping transfer (GST) tax exemption to \$15 million per individual, up from \$13.99 million in 2025. For married couples, this translates to an effective exemption of \$30 million. This change, effective Jan. 1, 2026, eliminates the previously scheduled reversion to lower levels (approximately \$7 million) after 2025. Since this legislation does not have a "sunset" date at which the increased exemptions would fall back to lower levels, it would take specific legislation by Congress and approval of the then-acting president to reduce those exemptions.
2. **Inflation Adjustment:** The increased exemption amounts will be indexed for inflation for years after 2026, using 2025 as the base year for adjustments. The idea of indexing is not new; it was embedded in the prior law, but this act moves the exemption amount up to \$15 million beginning in 2026 and is adjusted for inflation each year thereafter.
3. **Annual Gift Tax Exclusion:** The annual gift tax exclusion, which allows individuals to gift a certain amount each year free of gift tax and without reducing their lifetime exemption, remains in place and is currently \$19,000 per recipient for 2025. This amount will continue to be adjusted for inflation annually.
4. **Estate Tax Rate:** The top federal estate tax rate remains at 40 percent. Because of the very large exemptions, this is a "flat tax" for any estate that exceeds the amount of estate and gift tax exemption available to a decedent at the time of death. Thus, if an unmarried individual had a taxable estate of \$20 million and had \$15 million of exemption remaining, the \$5 million excess of the exemption would be taxed at 40 percent, or \$6 million.
5. **Portability:** The OBBBA maintains the portability provision, which allows a surviving spouse to utilize any unused estate tax exemption from their deceased spouse. To take advantage of portability, the surviving spouse must file a federal estate tax return (Form 706) and elect portability, generally within nine months of the deceased spouse's death.

## **Impact of these changes in the estate and gift tax laws:**

1. For a client who has an estate exceeding \$7 million (or \$14 million for a married couple) but less than \$15 million (or \$30 million for a married couple) there is no longer any urgency to make gifts or enter into any other estate planning transactions solely to avoid the loss of approximately \$7 million of estate and gift tax exemption on Jan. 1, 2026.

2. However, for a client whose estate is close to, or exceeds, \$15 million (\$30 million for a married couple) there are good reasons to make gifts of property with substantial appreciation potential, because the increase in value after the date of the gift will be completely excluded from the estate tax when the client dies. These clients will also want to periodically review the status of their estate and consider whether additional estate planning for reduction of estate taxes might be advisable, since use of the exemption to make gifts (either outright or in trust) is most effective when made early. Those gifts can be made even more effective when assets are transferred to a trust for which the client pays income taxes.
3. A married couple whose joint estate is unlikely to exceed \$30 million may want to review their estate plan to determine whether the unlikely application of estate and gift taxes would permit them to substantially simplify their wills (or living trust).