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CLIENT ALERT

2025 Year-End Estate Planning and Charitable Giving Tips

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As the end of the year approaches, now is an opportune time to review your estate plan and charitable giving strategies to ensure they remain aligned with your financial goals and take advantage of current tax benefits. Below, we highlight key considerations and important deadlines for year-end planning, as well as upcoming changes to estate and gift tax exemption levels for the next year.

Action Items Before Year-End

- Finalize charitable decisions and contributions to maximize income tax benefits.
- Complete annual exclusion gifts by December 31.
- Review and update your estate plan in light of upcoming exemption level changes.

See below for details regarding these and other action items.

Prefunding Charitable Gifts

Beginning in 2026, the One Big Beautiful Bill introduces a new floor on itemized charitable deductions: Itemizers may deduct only the portion of charitable gifts that exceeds 0.5% of adjusted gross income (AGI) —the first 0.5% of AGI yields no deduction.

Because the new limit takes effect in 2026, consider prefunding charitable gifts into 2025—by accelerating planned multiyear gifts or by bundling gifts to a donor-advised fund (DAF) or private foundation—so that you can claim a full deduction under current rules, rather than face the 0.5% AGI floor. Future distributions can always be made from the DAF or private foundation.

If you are over 70½ and have an IRA, you can also make charitable gifts—any amount up to $108,000 per tax year, adjusted annually for inflation—by making a qualified charitable distribution (QCD) directly from your IRA. QCDs count toward your annual required minimum distribution (RMD), but are not included in taxable income and will not be subject to the new limitations on charitable deductions starting in 2026.

Annual Exclusion Gifts

If you have not yet made your 2025 annual exclusion gifts—gifts that do not use any of your lifetime gift and estate tax exemption—now is the time. For 2025, the annual gift tax exclusion is $19,000 per recipient, or $38,000 per recipient for married couples who elect to split gifts. To qualify for the exclusion, gifts must be completed and any checks must be deposited by December 31. This is a use-it-or-lose-it opportunity.

Looking ahead, the annual gift tax exclusion for 2026 will remain $19,000 per recipient ($38,000 for married couples). Consider making your 2026 exclusion gifts early in the year. Doing so can help reduce year-end congestion and gives gifted assets more time to appreciate outside of your taxable estate.

Direct Payment of Education and Medical Expenses

In addition to annual exclusion gifts, direct payments for qualified education and medical expenses made to service providers on behalf of others are not subject to gift tax and do not count against your lifetime exemption. There is no annual or lifetime limit on such payments, making them an effective tool for supporting loved ones and further reducing your taxable estate.

Estate, Gift and Generation-Skipping Transfer (“GST”) Tax Exemptions

The federal estate, gift and GST tax exemptions for 2025 are $13.99 million per individual. For married couples, this amount is portable, effectively allowing a combined exemption of $27.98 million. Effective January 1, 2026, the exemptions increase to $15 million per individual (or $30 million per married couple) and will be inflation-adjusted in future years. Even if you have previously exhausted your lifetime tax-free gifting, this increase in exemption’s for

2026 (over $1 million per person or $2 million per married couple) provides significant gifting opportunities, particularly for individuals who have illiquid assets that may be subject to valuation discounts for gift tax purposes.

Consider Substitutions of Low-Basis Assets from Grantor Trusts

Consider whether now is a good time to take advantage of the substitution power in your irrevocable grantor trusts by swapping or buying back appreciated, low-basis assets in exchange for high-basis assets or cash. Exercising this power allows removal of low-basis assets from the trust in exchange for higher-basis assets, while preserving overall value. Upon the grantor's death, the reacquired asset will be included in the grantor's taxable estate and will generally receive a step-up in basis to fair market value, thereby eliminating the built-in gain and reducing income tax exposure for the beneficiaries.

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Your Willkie Private Wealth attorneys are available to assist you in navigating these year-end planning opportunities and to address any questions regarding the changing estate and gift tax landscape. We wish you and your families a wonderful holiday season and prosperous New Year.

Please reach out if you would like to further discuss your planning opportunities.

If you have any questions regarding this client alert, please contact the following attorneys or the Willkie attorney with whom you regularly work.

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