



Estate Planning and Wealth Transfer

Clock Counting Down on Action Opportunities

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Significant Gift and Estate Tax Exclusions Set to Expire After 2025

As America stands on the precipice of the most significant generational wealth transfer ever, the landscape of estate planning faces heightened scrutiny and complexity. Shifting political winds and looming potential changes to federal estate tax laws mean high-net-worth individuals and families must stay vigilant and proactive.

Current debates around sunset of tax exemptions, elimination of the federal estate tax and state-level transfer taxes have estate planning in sharp focus.

A Brief History of the Estate Tax

The federal estate tax—often called the “death tax”—was first introduced in 1916 to generate revenue during World War I. Originally intended to affect only the wealthiest families, the tax has significantly evolved over the past century. Rates and exemption thresholds have fluctuated with different administrations and economic cycles. In 2001, the Bush-era Economic Growth and Tax Relief Reconciliation Act (EGTRRA) began phasing out the estate tax. By 2010 it was completely repealed. The tax returned a year later, however, and has remained a fixture ever since, albeit with continually adjusted exemptions.

The most recent major overhaul occurred with the **Tax Cuts and Jobs Act (TCJA) of 2017**. That measure doubled the federal estate and gift tax exemption, taking it from \$5.49 million to \$11.18 million per individual, indexed for inflation.

In 2025, that exemption stands at \$13.99 million per person, or \$27.98 million per married couple. Absent action by Congress, these elevated thresholds are **due to sunset on December 31, 2025**. At that point they'll return to pre-2017 levels (roughly half), adjusted for inflation.¹

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Shedding Light on the Looming Sunset

The pending sunset of the TCJA exemption has estate planners and clients on edge. Should it occur, millions of dollars in assets could be exposed to estate tax at a top federal rate of 40%. Some in Congress propose modifying or eliminating the estate tax altogether. Others advocate for reducing exemptions or increasing rates, as means to generate federal revenue and address wealth inequality.

Given the current administration's focus on tax equity and fiscal responsibility, a return to lower exemption levels, not a full repeal, seems the more likely outcome. This potential reversion creates a narrow window of opportunity for individuals and families to leverage current exemptions through gifting strategies, spousal trusts, family limited partnerships and irrevocable grantor trusts.

Consider State-Level Treatment Too

While the federal estate tax garners much attention, 17 states plus the District of Columbia impose their own estate or inheritance taxes. These state-level taxes often have much lower exemption thresholds. They

range from \$1 million in states such as Massachusetts and Oregon to more generous levels elsewhere.¹

Notably, Connecticut is the only state that currently imposes a state gift tax. That presents a unique planning consideration for its residents. Families living in high-tax states may consider domicile planning or using trust structures in more favorable jurisdictions to mitigate this burden.

The Baby Boomer Wealth Tsunami

Some \$124 trillion in wealth is expected to transfer from Baby Boomers to Generation X and Millennials over the next two decades.² Nearly \$100 trillion will be transferred from Baby Boomers and older generations, representing 81% of all transfers. This intergenerational wealth shift is unprecedented. It represents both a planning challenge and a business opportunity.

Boomers hold a significant portion of the country's private wealth in real estate, closely held businesses, investment portfolios and retirement accounts. Absent proper planning, much of it could be diminished by taxation, probate and insufficient asset management.



Case Study:

Life Insurance as a Legacy Equalizer in a Family Business Succession Plan

Client Profile:

> Spouses

- Robert, age 68, business owner
- Linda, age 66

> Net Worth: \$10 million—including a \$6 million family business, \$2 million in retirement assets and \$2 million in personal savings and investments

> Family Dynamics: Three adult children

- Michael is actively involved in the family business
- Susan and David: no participation in the business
- Four grandchildren (Susan and David, two each)

Goals:

- > Transfer the family business to Michael, who has been working in and helping grow it for over 15 years.
- > Treat Susan and David fairly in the inheritance without forcing Michael to sell the business.
- > Begin tax-efficient gifting to grandchildren.
- > Minimize estate taxes and avoid conflict among heirs.
- > Maintain flexibility and control during retirement.

The Challenge:

Robert and Linda's largest asset is the \$6 million family business, which they want to pass to Michael. But they also want to provide meaningful, comparable value to Susan and David without forcing Michael to buy them out or liquidate business assets. In addition, they'd like to begin gifting to grandchildren now. They want to do so without exceeding annual gift exclusions or diminishing retirement savings.

The Solution: Leveraging Life Insurance for Equalization and Legacy

Robert and Linda implement the following strategy.

1. **Business Succession Plan.** They create a formal **buy-sell agreement** that transfers the business to Michael upon their death. Michael will receive the business outright through the estate. That will fulfill their intention of rewarding his contribution to the business while advancing its legacy.



2. Wealth Equalization Using Life Insurance.

Robert purchases two whole life policies. One has Susan as the beneficiary and the other has David. Each has a \$2 million death benefit, totaling \$4 million in non-business legacy value for the non-business children.

The policies may owned by an **Irrevocable Life Insurance Trust (ILIT)**. Doing so keeps them outside of the estate, protecting the proceeds from estate taxes and probate. Note that in creating the trust the grantor (Robert) loses control over the policies. As such, their cash value can't be withdrawn or borrowed against and their beneficiaries can't be changed. Also, the trust itself, once established, can't be modified or revoked.

3. Premium Funding Via Annual Gifting.

- Robert and Linda each gift \$18,000 per year to the ILIT for Michael, Susan and David (total: \$108,000/year using 2024 gift exclusions).
- The gifts are tax-free, being within the IRS annual exclusion limits.
- The ILIT trustee uses funds to pay policy premiums.

4. **Gifting to Grandchildren.** They also gift \$18,000 annually to each of their four grandchildren, using 529 plans and/or irrevocable trusts to structure the wealth transfers. Over 10 years:

- \$144,000/year (2 spouses x 4 grandchildren x \$18,000).
- \$1.44 million total transferred tax-free, reducing the taxable estate while helping fund education and future opportunities.

Utilizing a Lafayette Life Solution:

Contender 2022 Level Premium Whole Life —

A flexible solution for legacy and business planning.³

- **Death Benefit:** Provides liquidity for the business succession plan.
- **Supplemental Income:** Net premiums paid accumulate monthly, tax-deferred. Income may be obtained through a combination of withdrawals and loans, often tax-free.
- **Living Benefit:** Provides access to a portion of the policy's death benefit while the owners are living, in the event of a qualifying condition.

In Sum: Outcome and Benefits

- Michael receives the family business, preserving it without debt or complications.
- Susan and David receive a tax-free \$4 million death benefit from the life insurance policy, achieving fairness without forcing a business liquidation.
- Grandchildren now begin receiving wealth in a tax-efficient, structured manner.
- The use of the ILIT keeps life insurance proceeds out of the taxable estate, protecting the plan from future estate tax changes.

Life Insurance: A Proven Wealth Transfer Tool

Life insurance remains a cornerstone of effective estate planning, particularly amid potential rising tax exposure. Key areas where life insurance offers planning leverage include:

- **Liquidity for Estate Taxes:** Life insurance proceeds can provide immediate, income-tax-free liquidity to pay estate taxes. That advantage is especially valuable when the estate includes illiquid assets such as real estate or a family business.
- **Wealth Replacement:** For clients engaging in charitable giving or gifting strategies, life insurance can replace transferred or donated wealth for heirs.
- **Irrevocable Life Insurance Trusts (ILITs):** Placing policies in ILITs can keep proceeds out of the taxable estate, preserving more wealth for beneficiaries.
- **Leveraged Gifting:** Premiums paid into permanent life policies can use current exemptions before they sunset, locking in favorable tax treatment for future generations.
- **Equalization Among Heirs:** For families with businesses or properties that may pass to specific heirs, life insurance can provide a balancing mechanism for other beneficiaries.

Lafayette Life Contender 2022 • \$4 Million Total Face Value

Policy 1: Robert, Age 68		Guaranteed		Non-Guaranteed	
Year	Annual Premium	Cash Value	Death Benefit	Cash Value	Death Benefit
5	\$132,760	\$301,160	\$2,000,000	\$430,635	\$2,157,014
10	\$132,760	\$710,040	\$2,000,000	\$1,129,656	\$2,495,286
20	\$132,760	\$1,433,760	\$2,000,000	\$2,851,628	\$3,543,472

Policy 2: Linda, Age 66		Guaranteed		Non-Guaranteed	
Year	Annual Premium	Cash Value	Death Benefit	Cash Value	Death Benefit
5	\$110,520	\$249,920	\$2,000,000	\$360,716	\$2,147,139
10	\$110,520	\$621,920	\$2,000,000	\$992,744	\$2,461,584
20	\$110,520	\$1,329,280	\$2,000,000	\$2,643,192	\$3,480,451

Example is hypothetical in nature and used for illustrative purposes only. Based on 68-year-old male and 66-year-old female Preferred No Tobacco; State of Ohio. Values shown are as of 4/02/2025.

What Now? Planning Ahead

With the sunset of current exemptions just around the corner and legislative outcomes uncertain, estate planning should be treated with urgency. Families should consider:

- Accelerating lifetime gifting strategies while exemptions are higher.
- Reviewing and updating existing wills, trusts, and entity structures.
- Coordinating with financial advisors, attorneys and life insurance professionals to build and safeguard tax-efficient, multi-generational wealth plans.

In this dynamic environment, those who act now can help protect their legacies and take full advantage of

the tools currently available. Estate planning has always been about foresight. In today's climate, timing may be just as critical as strategy.

Estate planning is a matter of opportunity and urgency. Reach out to the subject matter experts in Advanced Markets. That's why we're here: to partner in your success.



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¹ IRS.gov

² Cerulli Associates, "Cerulli Anticipates \$124 Trillion in Wealth Will Transfer Through 2048," Dec. 4, 2024.

³ Loans will accrue interest. Cash value may take years to accumulate, unless a large premium is paid up front. Loans and withdrawals may generate an income tax liability, reduce the account value and the death benefit, and may cause the policy to lapse. Sufficient premium and account value are necessary to cover insurance costs. Index returns do not guarantee that the policy will stay in force.

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