PIERRO, CONNOR & STRAUSS, LLC
Trusted Counsel

PCS ADVISORY

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<u>The OBBBA (One Big Beautiful Bill Act) and its Effect on Estate Planning</u>

Important New York Tax Considerations Amid Federal Changes

Takeaways

- **The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, significantly impacts estate and financial planning.**

- **The federal estate, gift, and generation-skipping transfer tax exemptions will rise to $15 million per individual starting in 2026. This reduces estate tax exposure for most Americans but doesn't eliminate the need for comprehensive estate planning.**

- **The New York estate tax exemption remains at $7.16 million, and new opportunities now exist to create plans that save on estate, capital gains and income taxes.**

- **The OBBBA also includes an estimated $1 trillion in Medicaid cuts over the next decade. These reductions could impact long-term care services, potentially forcing families to reassess their reliance on Medicaid for such care.**

- **As of 2028, there will also be a $1 million cap on home equity for Medicaid long-term care eligibility.**

- **The OBBBA introduces various other tax and financial provisions, making it essential for you to review your estate plans, tax strategies, and long-term care arrangements with a trusted advisor.**

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Overview

At Pierro, Connor & Strauss, we stay closely attuned to developments in Washington, including the extension of the Trump-era tax cuts through the newly enacted *One Big Beautiful Bill Act* (OBBBA). These sweeping federal tax changes present significant opportunities—but only for those who plan ahead. With the right legal and financial strategies, you can reduce your tax burden, safeguard your legacy, and keep more of your wealth working for the people and causes you care about. As laws and policies shift at the federal, state, and local levels, having a trusted team to guide you through the complexity can make all the difference.

Key Provisions

To help you understand what these changes mean for your estate planning, here is a closer look at the key provisions of the OBBBA and how they build on the 2017 Tax Cuts and Jobs Act.

> Most significantly for high-net-worth families, OBBBA extends the 2017 estate and gift tax relief beyond the December 31, 2025 sunset, and resets the base year for inflation adjustment to 2025, thus:

- With the federal Estate, Gift and Generation skipping transfer tax exemptions set to increase to $15 million per person for gifts made and individuals who die in 2026, those who have already used most or all of their lifetime exemption — which is capped at $13.99 million in 2025 — will have additional exclusion capacity beginning in 2026. This means they may be able to make more tax-free gifts or reduce estate tax liability in future years.

- The enactment of OBBBA has not changed any of the rules for portability elections that can be made by surviving spouses, effectively allowing married couples to shelter a combined $30 million from federal gift and estate tax.

- The lifetime GST exemption is still equal to the basic exclusion amount at $15 million, paving the way for robust multi-generational planning. A deceased spouse's GST exemption still is not portable to the surviving spouse, however, which will require careful planning to maximize the benefits of the GSTT exemption through trusts.

- The regular income tax rates for individuals, estate and trusts established under by the TCJA and tax brackets, with annual inflation adjustments, are permanently extended, thereby offering trustees long-term predictability in managing irrevocable trusts.

- The OBBBA makes the federal Qualified Opportunity Zone (QOZ) program a permanent part of the tax code and introduces new provisions for investments in Qualified Opportunity Funds (QOFs) beginning January 1, 2027. Key updates include:
    - Changing when deferred capital gains must be recognized for investments made on or after that date — gains will now be recognized five years after the investment is made, creating a "rolling deferral" period.

- Allowing a 10% increase in the basis of QOF investments made on or after January 1, 2027, once the investment has been held for at least five years.

The removal of the sunset provisions and the "permanency" of federal exemptions and tax rates may provide a sense of some relief to those who were pushing to complete estate planning on or before December 31, 2025. The new laws also create opportunities, however, and it remains important to keep informed of political temperatures as a future Congress and administration could enact new legislation that would repeal or reduce the increase in the basic exclusion amount for individuals dying or making gifts after the effective date of OBBBA.

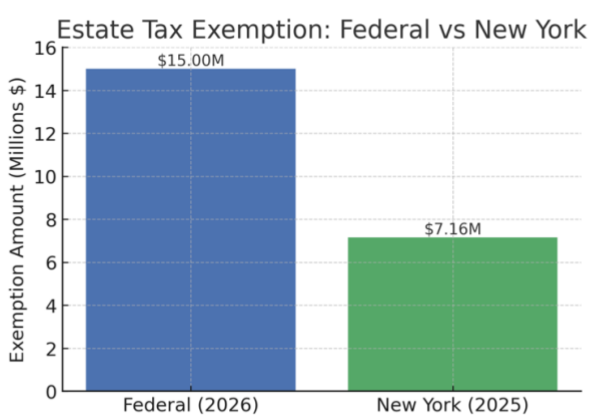
To lock in the use of the full $15 million exemption before any future legislation reduces it, now is the best time to consider the possibility of a Spousal Lifetime Access Trust (SLAT), Dynasty Trust or Grantor Retained Annuity Trust (GRAT), or, for estates near the exemption threshold, an Irrevocable Life Insurance Trust (ILIT) to pay estate taxes without increasing estate size.

In addition to estate and gift tax changes, OBBBA makes the cap on the amount of personal state and local taxes that individuals can deduct permanent (SALT Deduction) and increases it from $10,000 to $40,000 beginning in 2025 through 2029. However, the ability to benefit from the increased cap is phased out for taxpayers with modified adjusted gross income (MAGI) starting at $500,000.

The SALT deduction will be available for "non-grantor" trusts, allowing such trusts to deduct up to $40,000 of state and local taxes. Therefore, estate planners may consider establishing multiple trusts to take advantage of the per trust deduction for tax-efficient wealth transfers in high-tax states.

Meanwhile, the Congressional Budget Office (CBO) estimates that OBBA will increase the national debt by $3.4 trillion over the next 10 years. To offset federal deficits, the bill makes cuts to the "safety net" programs that provide health care and nutrition benefits to millions of Americans.

New York Residents: Take Note!
While the OBBBA significantly impacts the federal estate, gift and GST tax, states like New York with their own estate or inheritance taxes are not bound by these federal changes. As a result, New Yorkers must continue to plan carefully to manage exposure to state-level taxes.



Even though the Trump-backed OBBBA would permanently increase the federal gift, estate and GST tax exemptions—raising them to $15 million per individual in 2026—New York State maintains its own estate tax system with a much lower exemption. As of 2025, the New York estate tax exemption is approximately $7.16 million per person, and unlike the federal system, New York does not offer "portability" between spouses. Spousal planning in New York requires careful consideration of how to structure trusts and wills to incorporate "credit shelter" trusts, which enable married couples to utilize each spouse's $7.16 million exemption.

The risks of failing to plan in New York are compounded by what is known as the "cliff": if your taxable estate exceeds the NYS exemption by more than 5%, you lose the benefit of the entire exemption, and estate tax is applied to the full estate value—not just the amount above the threshold. For example, an estate of $7.16 million will pay $0.00 in estate tax. Once the estate goes 5% over, or $7,518,000, the entire estate is taxed with no exemption. For example, the NY estate tax on an $8M estate would be $773,200, compared to $0.00 tax at $7.16 million.

Conversely, there is no tax on lifetime gifts in New York, so using trusts and getting up to the $15 million exemption is tax free for both NY and federal estate tax, even though New York has less than half the exemption amount. It doesn't end there, however, as New York has a 3 year "claw back" rule which brings gifts back into the taxable estate if made within 3 years of death, so advance planning is a must.

The takeaway? While OBBBA may reduce or eliminate your federal estate tax burden, New York's estate tax could still take a significant bite. That's why techniques such as credit shelter trusts, gifting strategies, and charitable giving are critical for high-net-worth New Yorkers. Don't let the higher federal exemption give a false sense of security. If you live in New York, it's critical to plan with state-level taxes in mind.

OTHER OBBBA Tax Deduction Provisions:

- The higher Alternative Minimum Tax (AMT) exemption amounts and phase-out thresholds originally introduced by the Tax Cuts and Jobs Act (TCJA) are made permanent.
- The TCJA's expanded standard deduction is also permanently extended. In 2025, that deduction is set at $15,750 for individuals and $31,500 for married couples filing jointly, with future adjustments based on inflation.
- From 2025 through 2028, individuals aged 65 and older can claim a $6,000 deduction if their modified adjusted gross income (MAGI) is $75,000 or less for single filers or $150,000 or less for joint filers.
- During the same four-year window (2025–2028), taxpayers may deduct up to $10,000 in interest on loans used to buy new vehicles, provided the vehicle was purchased after 2024 and assembled in the U.S. This deduction is available even for those who don't itemize, although it begins to phase out for MAGIs above $100,000 for individuals and $200,000 for joint filers.

- Starting in 2026, taxpayers who do not itemize can claim up to $1,000 (or $2,000 for joint returns) in charitable donations. A new floor of 0.5% of adjusted gross income (AGI) applies to individuals who itemize, while corporations will face a 1% AGI floor. Additionally, the rule allowing up to 60% of AGI for cash contributions to public charities is now permanent.

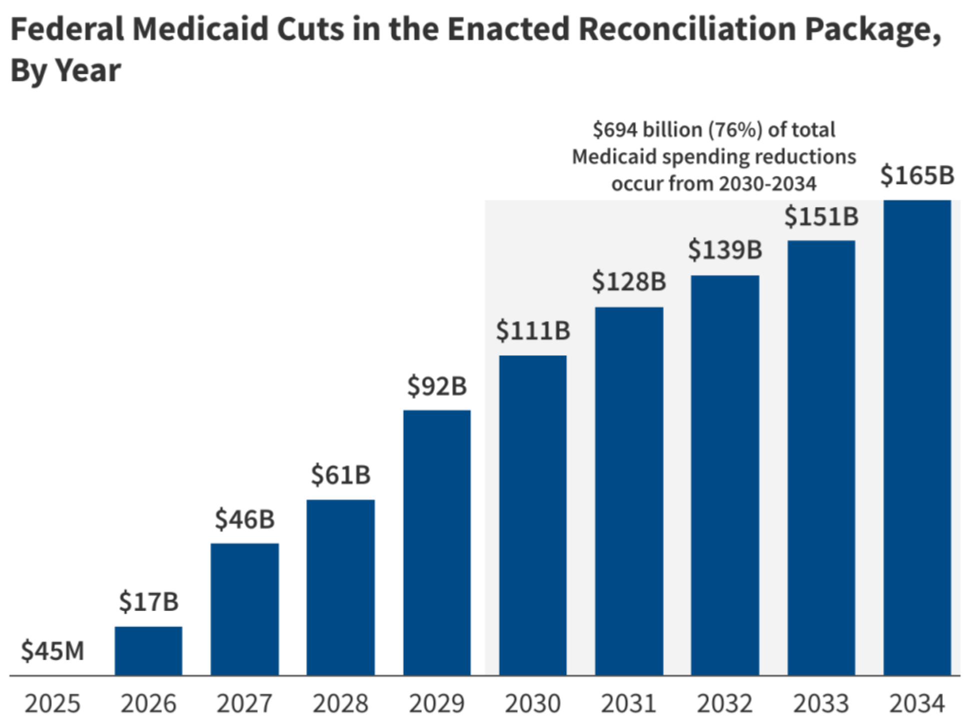
Additional Notable OBBBA Tax Credit Update:

- The enhanced child tax credit introduced by the TCJA becomes permanent under the OBBBA, with the credit amount increased to $2,200 for the 2025 tax year. This amount will be indexed for inflation in future years.

Key Tax Credits Set to Expire After 2025:

- The tax credits for both new and used clean vehicles will no longer be available for vehicles purchased after September 30, 2025.
- The residential clean energy credit under Section 25D will end for expenses incurred after December 31, 2025. Similarly, the energy-efficient home improvement credit under Section 25C will expire for improvements installed after that date.

Non-Tax Provisions of OBBBA



Source: KFF Analysis

Reducing Medicaid spending (about 9 percent of the federal budget) could help offset the costs of extending TCJA tax cuts. But these reductions — nearly $1 trillion — including rollbacks to ACA Medicaid expansion funding — may lead to cuts or shifts in long-term care services and other Medicaid services.

- **Timing matters (and so do state budgets).** Many of OBBBA's Medicaid provisions will phase in over several years, but the first major changes, stemming from work and community engagement requirements for certain adults, hit January 1, 2026. States can choose to implement changes earlier or delay them slightly, creating uncertainty about when — and how — families will feel the impact.

- **State flexibility means outcomes will vary.** Medicaid programs are state-administered within federal guidelines. States decide how to allocate long-term care funding, determine eligibility criteria, and choose whether to cover optional services like home- and community-based care (HCBS). In some states, budget shortfalls may lead to tightened eligibility or reduced long-term care benefits, while others may maintain broader coverage — at least for now.

  In New York, where home care has been a protected benefit for years, there are concerns that Medicaid cuts could force more people into nursing homes as non-federally mandated HCBS services are scaled back. With a total of 110,000 nursing home beds in the entire state, and none on the drawing board, personal planning is more important than ever.

- **Relying on Medicaid for long-term care could be riskier.** With federal contributions shrinking and states under pressure to fill gaps, families who planned long-term care around Medicaid, including a Medicaid "spend down" strategy, should reassess.

Reviewing your long-term care plan now can help avoid gaps if future changes reduce eligibility or available services. Tools such as irrevocable trusts or private long-term care insurance could help protect your assets and secure care options if coverage rules change in your state. For those using a Medicaid "spend down" strategy, OBBBA's changes, such as the new home equity cap, may require a fresh look at long-term care planning options to maintain eligibility.

Let's Secure Your Future—Together

Estate planning can be complex — whether you are wealthy, middle class or modest means — but you don't have to navigate it alone. At Pierro, Connor & Strauss, we specialize in crafting personalized plans that protect your assets regardless of your net worth to provide for your loved ones, and give you peace of mind. Whether you're just starting or need to update an existing plan, our experienced team is ready to help.

Take the first step today. Call us for a free consultation at (866) 951-PLAN (866-951-7526)

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