

# Big News: Major Changes to Massachusetts Estate Tax Limit in 2023



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In a landmark decision, the Massachusetts Legislature, in collaboration with Governor Maura Healey, has ushered in a sweeping \$1 billion tax package, encompassing a comprehensive overhaul of various Massachusetts tax laws, with a particular focus on the Massachusetts estate tax.

## **Previous Massachusetts Estate Tax Regulations**

Historically, the Massachusetts estate tax was levied on individuals who passed away with assets exceeding \$1 million. Importantly, this tax applied to the entire estate value, not solely the portion exceeding the \$1 million threshold. However, there is exciting news on the horizon! The recently passed bill introduces a substantial alteration by raising the threshold to \$2 million. As a result, estates valued at less than \$2 million will no longer be subject to the estate tax.

Furthermore, this new legislation stipulates that only assets exceeding \$2 million will be subject to taxation. These transformative changes are set to take effect for estates of individuals who pass away on or after January 1, 2023.

## **Estate Planning Considerations**

These changes underscore the importance of staying informed about estate and gift tax limits. In light of the increased exemption, married couples now have the opportunity to leave up to \$4,000,000 to the next generation without incurring estate tax. However, it's vital to note that the full utilization of this exemption isn't automatic. Under current regulations, essential steps must be taken to ensure that each spouse maximizes their available exemption, regardless of the sequence of their passing.

Both spouses should possess estate planning documents that facilitate the optimal utilization of each exemption. A strategy that bequeaths all assets outright to the surviving spouse can inadvertently squander an exemption and result in a higher Massachusetts estate tax liability, ultimately reducing the inheritance for children. The conventional approach to circumvent this issue is for both spouses to have estate planning documents that, upon the first spouse's passing, allocate assets equal to the exemption either to a trust benefiting the surviving spouse (commonly referred to as a "credit shelter" or "bypass" trust) or directly to the

children, whether outright or through a trust. When executed correctly, this ensures that the assets covered by the exemption of the first spouse to pass away, including any appreciation during the surviving spouse's lifetime, ultimately pass to the children without incurring estate tax.

## **Streamlined Estate Plans**

Thanks to the augmented exemption, couples with more modest estates may find opportunities to streamline their estate plans significantly. For those whose combined net worth remains under \$4,000,000 and isn't anticipated to exceed this threshold in the future, the need for "credit shelter" or "bypass" trusts and their accompanying formula clauses may become unnecessary. This simplification can be particularly advantageous.

## **Review and Optimize Your Estate Plans**

Especially for individuals with larger estates, now is an ideal time to revisit your existing estate planning documents. Ensure that they align with your original intentions and capitalize on the opportunities presented by this new tax landscape. Consulting with a qualified estate planning attorney can be a prudent step in navigating these changes and ensuring your estate planning remains aligned with your goals and financial circumstances.

*Do you have a suggestion for a future article topic for Attorney Walecka? Reach out to him directly with a question or topic you think would be helpful to readers.*

*The information contained in this article is not intended to make you an expert on estate planning nor is this article intended to replace the need for the advice of a professional. Rather, this article is simply intended to provide a basic understanding of why estate planning is important for everybody and a basic understanding of some of the more common estate planning tools. This article does not constitute legal*

*advice.*