

## Estate Planning Strategies for Multi-Generational Families Below the Federal Estate Tax Exemption

By: HB Wealth

### Key Takeaways

- Estate planning remains important even for families whose wealth falls below federal estate tax thresholds.
- For many of these families, income tax planning and basis management may be more impactful than estate tax minimization.
- Older trusts created in lower exemption environments may benefit from review to ensure they remain flexible and tax efficient.
- Planning decisions should consider multiple generations, including opportunities involving older family members and inherited assets.
- Administrative details such as trust funding, beneficiary designations, and incapacity planning remain critical to ensuring estate plans function as intended.

Estate planning is often associated with avoiding federal estate taxes. Yet many families whose wealth falls below today's historically high exemption thresholds still benefit from thoughtful estate planning.

For these families, the focus of planning often shifts. Instead of concentrating primarily on transfer taxes, planning decisions may emphasize income tax efficiency, trust flexibility, asset protection, and preparing future generations to steward family wealth responsibly.

John Taylor, Senior Wealth Advisor, notes that many clients today fall into a category where they are unlikely to ever face federal estate tax exposure. Even so, understanding how assets are structured and how wealth will pass across generations remains an essential part of long-term planning.

When estate taxes are not the primary constraint, estate planning becomes less about avoiding taxes and more about building structures that remain adaptable as families and laws evolve.

## **Estate Planning vs. Wealth Transfer Planning**

Estate planning is often discussed primarily in the context of estate taxes, which can create confusion about who actually needs planning.

Tim Tallach, Director of Advanced Tax Planning & Family Office Services, often distinguishes between estate planning and wealth transfer planning, noting that estate planning is relevant for nearly every family, while wealth transfer planning typically refers to strategies designed specifically to minimize estate and gift taxes.

Estate planning focuses on foundational questions, including:

- Who will manage assets if someone becomes incapacitated
- How wealth will pass to heirs
- How assets should be structured for protection and stewardship

Wealth transfer planning, by contrast, generally involves more specialized strategies intended to reduce transfer taxes.

For families whose estates fall below federal estate tax thresholds, estate planning remains critical even when complex transfer-tax strategies may not be necessary. Instead, the focus often shifts toward flexibility, tax efficiency, and ensuring wealth is structured to support future generations.

## **A Framework for Planning: F.A.T.E.**

Tim often summarizes planning priorities for non-taxable estates using the framework F.A.T.E.:

- Flexibility
- Asset Protection
- Tax Efficiency
- Ease of Administration

The acronym echoes the “Three Fates” of Greek mythology, figures said to determine the thread of life and destiny. In estate planning, the concept reflects the idea that planning decisions today shape how wealth flows through generations.

Flexibility allows structures to evolve as laws and family dynamics change. Asset protection safeguards inherited wealth. Tax efficiency focuses on minimizing unnecessary taxes over time. Ease of administration ensures plans are practical for heirs and fiduciaries to manage.

These considerations often guide planning discussions for families whose estates fall below federal exemption thresholds.

## **The Growing Importance of Income Tax Planning**

For families below estate tax thresholds, income taxes may represent the more significant long-term planning consideration.

Chris Walczak, Senior Wealth Advisor, notes that estate tax and income tax planning operate under separate systems. Strategies designed to remove assets from an estate to avoid transfer taxes can sometimes create unintended income tax consequences.

One key issue is cost basis management, particularly the step-up in basis that occurs at death.

Assets included in a taxable estate generally receive a step-up in cost basis at death, potentially eliminating capital gains taxes for heirs. Assets held indefinitely in certain trust structures may not receive this adjustment.

Kelly Nowotnick, Senior Wealth Advisor, notes that many trusts created decades ago were designed primarily to avoid estate taxes. With today’s higher exemptions, those structures may sometimes need to be reevaluated to ensure they remain efficient from an income tax perspective.

John recalls a situation where a client inherited assets through a legacy trust created when estate tax exemptions were much lower. Because the assets were permanently outside the estate, they carried extremely low-cost bases that could not be stepped up, creating significant capital gains exposure for future generations.

Situations like this illustrate why modern estate planning often requires balancing estate tax considerations with long-term income tax outcomes.

In addition to basis considerations, older trust structures can also create income tax inefficiencies if income becomes trapped inside the trust.

## **Upstream Gifting as a Strategic Tool**

In some situations, families may also consider upstream gifting as part of basis planning.

Rather than transferring assets to younger generations, upstream gifting involves transferring assets to an older family member whose estate is unlikely to exceed estate tax thresholds. If those assets are later included in that individual's estate, they may receive a step-up in cost basis at death, potentially reducing future capital gains taxes for the family.

As John explains, this strategy requires careful coordination and consideration of family dynamics, asset protection concerns, and overall estate planning goals. When used appropriately, however, it can help families improve long-term tax efficiency while maintaining flexibility across generations.

## **Avoiding Income Traps Inside Trusts**

Another issue that can arise in older trust structures involves income taxation inside non-grantor trusts.

Tim notes that trusts are subject to highly compressed income tax brackets. As a result, income retained within a trust can quickly be taxed at the highest federal rates.

In some legacy trust structures, distribution provisions may limit a trustee's ability to distribute income to beneficiaries. When this occurs, taxable income can become trapped inside the trust and taxed inefficiently.

Reviewing older trust provisions and ensuring trustees have appropriate distribution flexibility can help families avoid unnecessary tax costs.

These tax considerations often lead families to revisit trust structures created in earlier planning environments.

## Modernizing Older Trust Structures

Many estate plans were drafted when federal estate tax exemptions were significantly lower.

Amy Owen, Senior Wealth Advisor and Wealth Strategist, notes that tools such as trust decanting and powers of appointment allow families to introduce flexibility into existing trust structures.

These tools may allow trustees or beneficiaries to update provisions, redirect assets among beneficiaries, or adjust structures to reflect current tax law and family circumstances.

Rebecca Streamo, Senior Wealth Advisor and Wealth Strategist, has seen situations where updating older trusts significantly improved planning outcomes. In one case, a long-standing family trust had been structured as a single pooled trust for multiple beneficiaries. Through a decanting process, the trust was divided into separate shares for each branch of the family.

This change allowed each beneficiary's planning needs to be addressed individually while maintaining the broader intent of the original estate plan.

## Looking Across Generations

Estate planning increasingly requires looking beyond a single generation.

Tim encourages families to evaluate planning decisions through a tri-generational lens, considering how assets may affect children, grandchildren, and future descendants.

Rebecca has seen how trust structures can shape family financial outcomes for decades. Updating older provisions may allow each generation to manage wealth more effectively while preserving the intent of the original plan.

John explains that this broader perspective can also reveal planning opportunities involving older generations whose estates fall below exemption thresholds. In some cases, assets inherited from parents or grandparents may carry significant unrealized capital gains, creating opportunities for thoughtful planning to improve long-term tax outcomes for the family.

## **Avoiding Common Administrative Pitfalls**

Even well-designed estate plans can fail if administrative details are overlooked.

Kelly notes that beneficiary designations on retirement accounts and insurance policies must align with the broader estate plan.

Rebecca adds that newly drafted revocable trusts are sometimes left unfunded, meaning assets were never retitled into the trust structure.

Coordinating estate documents, account titling, and beneficiary designations is essential to ensure the plan functions as intended.

## **Planning for Incapacity**

Estate planning also addresses situations that arise during life, not just after death.

Amy emphasizes the importance of planning for potential incapacity. Without proper authority structures in place, spouses or family members may lack the legal ability to manage financial accounts or make decisions during a medical emergency.

These considerations reinforce the importance of maintaining current estate planning documents even when estate taxes are not a concern.

## **Estate Planning Is an Ongoing Process**

Estate plans should evolve alongside the families they support.

Tax laws change. Family dynamics shift. Financial circumstances develop over time.

Tim notes that the most effective estate plans are those that remain aligned with the evolution of tax law, family goals, and financial structures.

Regular reviews help ensure that planning decisions made decades earlier continue to serve the family effectively.

## Next Steps

Estate planning for multi-generational families below exemption thresholds is about making intentional decisions, not simply avoiding taxes.

Even when estate taxes are unlikely, thoughtful planning can help families structure wealth in ways that support long-term stewardship across generations.

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If you would like guidance tailored to your family's financial priorities and generational goals, connect with one of our wealth advisors who specializes in working with multi-generational families:

[https://hbwealth.com/meet-the-team/wealth-advisors/?\\_specialization=multi-generational-families](https://hbwealth.com/meet-the-team/wealth-advisors/?_specialization=multi-generational-families).

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