

# The Gift Tax Cliff is on the Horizon

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- Wealth Transfer Insight

On December 31, 2025, the federal lifetime gift tax exemption will plummet from over \$13 Million in 2024 and 2025 to \$7+ Million for 2026. If you haven't taken advantage of this challenging economy to gift interests in your business, real estate, private equity, BDC or other funds, why are you waiting?

Lower values provide an opportunity to gift a higher percentage of one's investments tax free, but that opportunity is lost when valuations are higher, and the gift tax threshold is much lower.

## BENEFITTING FROM ECONOMIC CHALLENGES

There was a significant decrease in transaction activity in 2023 when compared to the prior three years: M&A, IPOs, and private equity platform investments are all down. Even investors in industries experiencing significant increased activity, such as renewable energy, are seeing a lower return on investment (ROI) in 2023.

The cost of capital, ROI and uncertainty are factors taken into consideration by investors and valuation professionals when projecting future performance of an investment. Many investors chose to park their money on the sidelines in 2023, waiting to see where market multiples and cap rates will settle in 2024.

*These challenges can be advantageous for wealth transfer transactions.*

### Valuations in 2024

When valuing a business or real estate investment for wealth transfer (gifting) purposes, valuation professionals work under the Fair Market Value ("FMV") standard, as defined by IRS Revenue Ruling 59-60. This standard assumes a hypothetical "willing buyer" and "willing seller" arriving at a well-informed agreement on the value of the subject.

FMV analyses require valuation specialists take into consideration the current economic environment and a comparison of the subject's past and projected performance with similar industry enterprises and recent comparable transactions.

Not accounting for the performance of a specific subject entity, valuations in 2023 and early 2024 are reflecting the application of:

1. Higher costs of debt and equity to account for a theoretical market participant buyer financing the acquisition of the subject entity.
2. Higher costs to run a business due to increased labor and supply costs.
3. Fewer M&A and financing transactions to use as a benchmark for the subject theoretical transaction.

### Real Estate Gifting Opportunities

Higher interest rates result in higher cap rates which depresses real estate values, making 2023 and 2024 good years to (1) gift interests in real estate and (2) buy out shareholders in order to consolidate equity between family members.