

IRS Announces Significant GST Regulation Changes

New Rules Enhance Flexibility for Taxpayers and Simplify Procedures

St. Louis, Feb 28, 2025 – The IRS has introduced new regulations, effective May 6, 2024, which will substantially revise generation-skipping transfer (GST) tax allocations. These changes provide flexibility and streamline relief procedures for taxpayers, facilitating more effective management of GST exemptions and elections.

GST taxes are designed to prevent estate tax avoidance on wealth transfers across multiple generations, such as on gifts from transferors to their grandchildren. Each taxpayer is entitled to a lifetime GST exemption amount (currently \$13.99 million) which can be allocated to various transfers, exempting them from the GST tax. GST exemption is automatically allocated to certain transfers, unless taxpayers manually elect to opt out or opt in to treating a transfer that would not normally attract automatic allocation as a GST transfer.

The new rules enable taxpayers to correct past errors in GST exemption allocations and elections, which were previously considered irrevocable. For example, an election to treat a trust as a GST trust made after December 2000 could be revoked, freeing up the GST exemption allocated to that trust for allocation to future transfers.

The new rules also allow taxpayers to undo pre-2001 late manual allocations of GST exemption. This is particularly relevant for assets that have appreciated in value, as a timely allocation made as of the date of the transfer would use less GST exemption than an allocation made later. Furthermore, the new rules provide a simplified procedure for relief during the automatic six-month extension period for filing gift or estate tax returns. Taxpayers can now submit a supplemental return within this extension period without the need for a private letter ruling (PLR) from the IRS or incurring additional fees.

These new regulations clarify the steps taxpayers need to take to manage their GST exemptions and enable more precise and flexible estate planning strategies.

About Lowenhaupt & Chasnoff

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