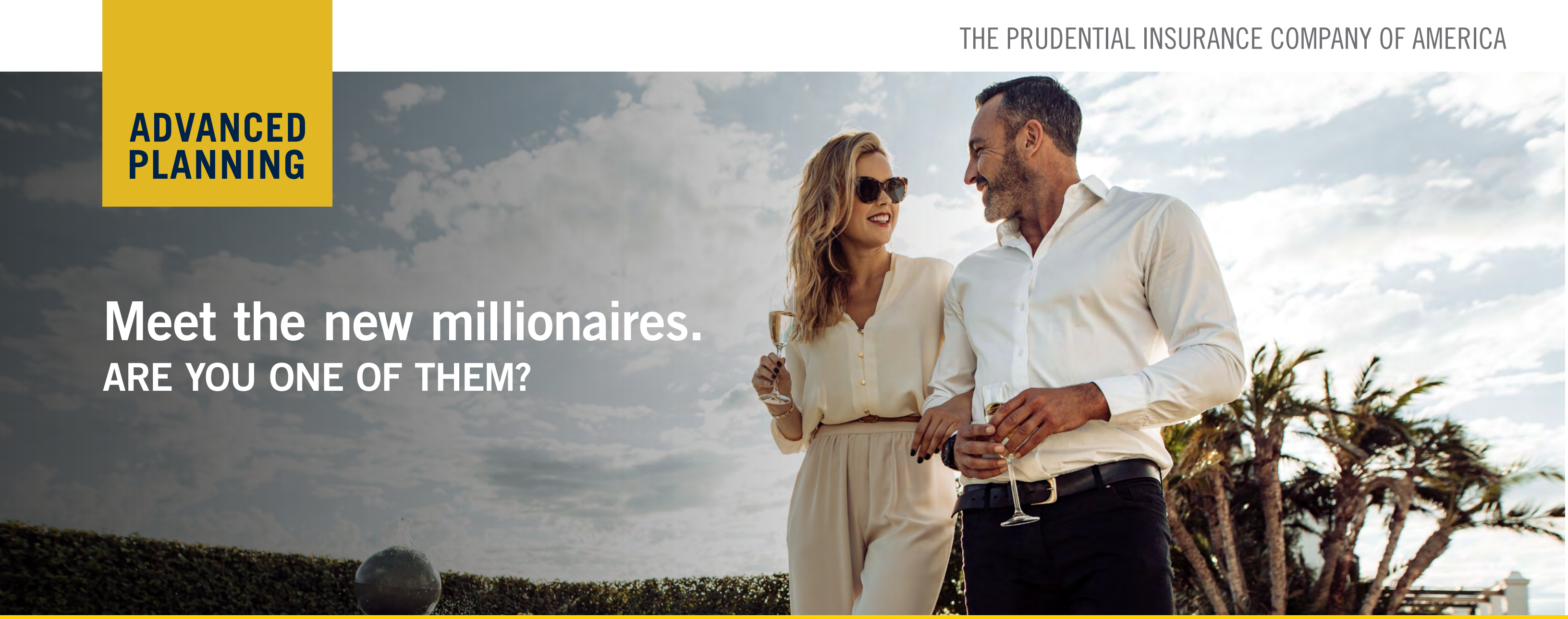

Meet the new millionaires.
ARE YOU ONE OF THEM?

Millionaires used to be uncommon. In 1980, there were about 500,000 millionaires in the U.S., which was just 0.25% of the population. Today, 7% of the population are millionaires, which means there are more than 40 times as many millionaires today than in 1980.

What happened to create all of these new millionaires? One reason for this is the effect of inflation. For example, a house that was worth $100,000 in 1980 might easily be valued at $500,000 today. Obviously, the person who owns that house today is closer to being a millionaire than the 1980 homeowner.

NUMBER OF U.S. MILLIONAIRES

In 1980: **500,000***

In 2022: **22,700,000****

Now, think about your financial situation. Does your net worth—the value of your property minus your outstanding debts—equal $1,000,000 or more? If so, congratulations are in order. You're a millionaire!

WHO'S COUNTING, ANYWAY?

The key to knowing your net worth is in the value of your assets. You may not think much about your net worth, let alone talk about it. For most people, the opportunity to work hard and provide for their loved ones is all that really matters.

But even if you're not counting up your assets, be assured there is someone who is! The transfer of wealth in the U.S. is taxable by the federal and/or state governments. Though some generous allowances are available, it's possible that you may not be able to pass 100% of your assets to your heirs when you die.

YOUR NET WORTH = YOUR ESTATE

You may not think much about your estate when you are alive because you remain in control of your assets. When you die, all the assets you own make up what is known as your estate.

* In the "80s, the Rich Got a Lot Richer, But With New Taxes That Could Change: Income: The wealthy profited greatly under tax laws of the "80s, increasing their share of the national pie. But new levies may target them, Phillips, K. June 24, 1990. Los Angeles Times, accessed on 12/27/2024, via https://www.latimes.com/archives/la-xpm-1990-06-24-op-854-story.html.

** How Many Millionaires Are in the US?, Rogers, Jan. 24, 2024. Accessed 12/27/24 via https://finmasters.com/millionaire-statistics/#gref.

INVESTMENT AND INSURANCE PRODUCTS ARE:
- **NOT FDIC INSURED**
- **NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY**
- **NOT A DEPOSIT OR OTHER OBLIGATION OF, OR GUARANTEED BY, ANY BANK OR ITS AFFILIATES**
- **SUBJECT TO INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED**

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Solely owned assets and any property with your estate as beneficiary become part of your taxable estate and are subject to the oversight of a local probate court. If you have property that is jointly owned with rights of survivorship, as is common between spouses, the surviving owner becomes 100% owner at the death of the other. Other property, such as retirement accounts, annuities, and life insurance can legally pass to beneficiaries at the owner's death if the owner had properly designated the beneficiary. If property is put in a trust during life, the trustee is charged with its disposition after death. Despite how these assets are titled, they are still part of your taxable estate. And if the estate is large enough—say $1,000,000 for example—it might be taxed.

IS YOUR NET WORTH TOO SMALL TO WORRY ABOUT DEATH TAXES?

Consider the value of your estate in 5, 10, or 20 years if your net worth grows at a rate of only 4% every year:

Year	Today's Net Worth $3 Million	Today's Net Worth $5 Million	Today's Net Worth $8 Million
0	$3,000,000	$5,000,000	$8,000,000
5	$3,649,959	$6,083,265	$9,733,223
10	$4,440,733	$7,401,221	$11,841,954
20	$6,573,369	$10,955,616	$17,528,985

Transfer tax basics

AT THE FEDERAL LEVEL

Under the Tax Cuts and Jobs Act of 2017, estate, gift, and generation-skipping transfers are taxed at a maximum rate of 40%. The individual basic exemption amount for estate, gift, and generation-skipping transfers is $13,990,000 in 2025.

In 2026, the basic exemption amount is currently scheduled to "sunset" to its 2017 level of $5,000,000, indexed for inflation.

AT THE STATE LEVEL

Currently, 12 states and the District of Columbia collect a tax on estates valued as low as $1,000,000 after a person dies. An additional five states collect inheritance tax from a deceased person's heirs. Another state even has both types of tax! It's important to plan for these taxes, even if they can't be totally avoided.

THE UNLIMITED MARITAL DEDUCTION

The federal government and all 50 states permit assets to pass tax-free from one spouse to a surviving spouse via a deduction on the applicable estate tax return. As the name implies, any and all property can be deducted from the value of the estate so long as ownership passes 100% to the surviving spouse, and there is an unlimited marital deduction for gift taxes as well.*

* As long as both spouses are U.S citizens.

THE PORTABILITY ELECTION

Portability is an extremely valuable tax benefit available to married couples, regardless of their net worth. It's also a relatively new benefit, which went into effect in 2011. Before then, trust planning was usually needed to use the exclusion of the first spouse to die.

Very simply, portability allows the unused federal estate tax exemption of a deceased spouse to be transferred to the surviving spouse. If a married person dies in 2025, up to $13,990,000 can be "ported" to the other spouse to exempt their assets from future tax, so long as they don't remarry. And after death, the transferred amount does not change, even if the survivor's own exclusion amount decreases.

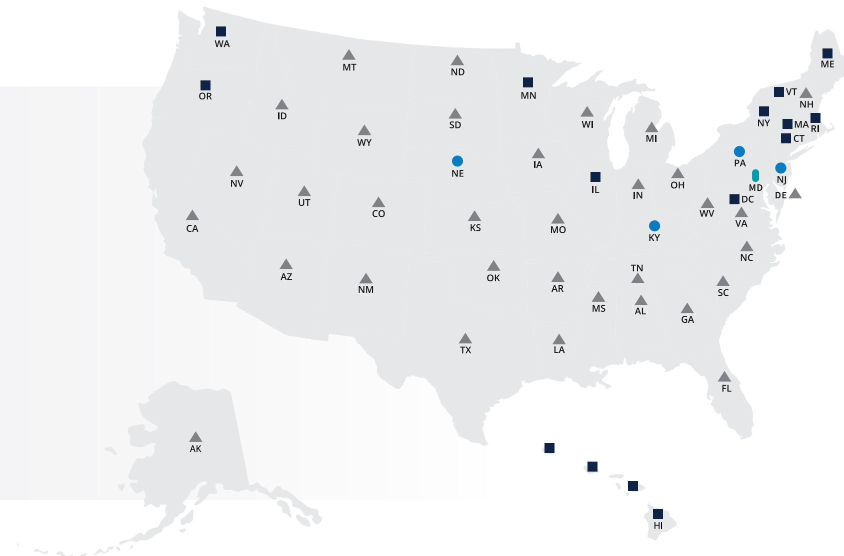
Portability makes planning easier and simpler, but it is not automatic. It must be elected on a timely filed Form 706, the federal estate tax return. If it's not, it's simply lost.

And, even when portability is elected at the federal level, it may not be available at the state level. The next sections provide information on how you may be affected by this and other state laws.

A closer look at state tax

As discussed earlier, about a third of states and the District of Columbia tax the transfer of wealth between generations.

Keep in mind that you can be affected two ways: either as a resident of a state that collects tax, or as a non-resident who owns property in that state.



DOES YOUR STATE HAVE AN ESTATE OR INHERITANCE TAX?

State Estate Tax | Inheritance Tax | Inheritance & State Estate Tax | Neither

The chart shows individual state exemption amounts. Some states use the exemption as a reduction in the taxable value, while other states use the exemption as a threshold where there is no state tax up to the exemption amount. For states that use the exemption amount as a threshold, once the exemption amount is surpassed, it ceases to count. Its value is effectively $0.

2025

State	State Estate Tax Rates	Current State Exemption	Inheritance Tax Rates (Children)	Inheritance Tax Rates (Other)
Connecticut	12%	$13,990,000		
DC	11.2% – 16%	$4,873,200		
Hawaii[1]	10% – 20%	$5,490,000		
Illinois	0.8% – 16%	$4,000,000		
Kentucky			0%	4% – 16%
Maine	8% – 12%	$7,000,000		
Maryland[1]	0.8% – 16%	$5,000,000	0%	10%
Massachusetts	0.8% – 16%	$2,000,000		
Minnesota	13% – 16%	$3,000,000		
Nebraska			0% – 1%[2]	1% – 15%
New Jersey			0%	11% – 16%
New York	3.06% – 16%	$7,160,000		
Oregon	10% – 16%	$1,000,000		
Pennsylvania			0% – 4.5%[3]	4.5% – 15%
Rhode Island	0.8% – 16%	$1,802,431		
Vermont	16%	$5,000,000		
Washington	10% – 20%	$2,193,000		

What about state portability?

Although estate tax exemption portability was introduced at the federal level in 2011, only two states have followed suit, Hawaii and Maryland.

This means that without proper planning, the state exemption of the first spouse to die will be lost.

And this can potentially result in higher state death taxes when the second spouse dies.

States without estate or inheritance taxes: AL, AK, AZ, AR, CA, CO, DE, FL, GA, IA, ID, IN, KS, LA, MI, MS, MO, MT, NV, NH, NM, NC, ND, OH, OK, SC, SD, TN, TX, VA, UT, WV, WI, WY.

1 Hawaii and Maryland allow a surviving spouse to assume the decedent spouse's unused state exemption with an election on a timely filed state estate tax return.

2 Nebraska inheritance tax rate for a child under the age of 22 is 0%. For children 22 and older, the inheritance tax rate is 1%.

3 Pennsylvania inheritance tax rate for a child aged 21 or younger is 0%. For children over age 21, the inheritance tax rate is 4.5%.

Property ownership: When the usual way is not the best way

Many married couples own their homes and other property as joint tenants with rights of survivorship, or with one spouse as designated beneficiary for assets such as qualified retirement plans. These assets automatically pass to the surviving spouse after the death of the first spouse. However, for those who wish to take advantage of their state's individual estate tax exemption at the first spouse's death, additional planning may be needed.

TWO ESTATE PLANNING STRATEGIES:

- Most common: Pass all assets to the surviving spouse outright by the use of the unlimited marital deduction (i.e., the "All to Spouse Will").
- Advanced: Establish a "credit shelter trust," also referred to as a "B trust," at the death of the first spouse to direct any state estate tax exemption amount to the trust. Pass the remainder of the estate, by use of the unlimited marital deduction, to the surviving spouse directly or to a marital trust, also referred to as an A trust.

Both arrangements postpone estate taxes until the death of the second spouse. But the use of the credit shelter trust has three important advantages:

- The couple gets to use two state exemptions instead of just one.
- The trust keeps asset appreciation between deaths from being included in the surviving spouse's estate.
- The assets in the trust are protected from the survivor's creditors, including subsequent spouses.

ASSET TITLING IS CRUCIAL

To achieve the goals of the credit shelter trust, it's not enough to simply include a credit shelter trust in your estate planning documents. Put simply, assets titled jointly with a spouse may pose a problem to the adequate funding of the trust. In most instances for assets to pass to a trust on the death of the first spouse, those assets must be owned solely by the first spouse to die or as tenants in common with their spouse. Assets with beneficiary or transfer-on-death designations, such as retirement plans and bank accounts, generally cannot be used to fund the trust, unless the trust is the designated beneficiary.

WHAT ABOUT CONTROL?

The idea of leaving assets to a trust instead of directly to a spouse might seem to deny the spouse control. The fact is the spouse may be able to act as trustee of the credit shelter trust AND benefit from the assets at the same time. This means he or she has decision-making authority over trust assets and can distribute income and property to themselves for their own health, education, maintenance, and support.

The surviving spouse may also be able to select who in the family receives trust property when he or she dies, depending on how the trust is drafted.

Asset titling: a case study

Consider a married couple with a net worth of $5,000,000 who reside in a state with an estate tax. Assuming one spouse dies much earlier than the other, the chart below shows how estate assets would flow under two different scenarios:

Assumptions: $4,000,000 state estate tax exemption, 16% state estate tax rate. Federal estate taxes are ignored for purposes of the example.

Isn't this pretty complicated?

In a word, yes. Experienced legal and tax counsel should be consulted well in advance to successfully execute a tax-efficient wealth transfer plan. But as you can see from the example, your heirs' potential savings could be considerable.

The role of life insurance

If any assets in a credit shelter trust aren't needed by the surviving spouse, using income from the assets to purchase life insurance on his or her life can be a way to further enhance the wealth passed to heirs. If the trust is drafted properly, the death benefit is not part of the surviving spouse's estate and not subject to state or federal estate taxes.

But regardless of your state's specific estate tax laws, certain other assets—such as IRAs and 401(k) plans—often come with a built-in income tax bill for your heirs. Generally, life insurance offers an income tax free death benefit to your beneficiaries. Due to its tax advantages, life insurance is a popular and effective tool in helping to meet estate goals in a variety of situations.

If you're one of today's millionaires who want to explore tax planning that helps leave more to your family, contact your financial professional to get started.

Life insurance is issued by Pruco Life Insurance Company (except in NY) and Pruco Life Insurance Company of New Jersey (in NY). Both are Prudential Financial companies located in Newark, NJ.

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