

**BUSINESS VALUATION:  
A KEY COMPONENT FOR GIFT  
& ESTATE TAX PLANNING**

## WHY IS A DEFENSIBLE VALUATION ESSENTIAL?

There are countless reasons for owners of a business to have a business valuation performed. Your attorney, CPA, financial advisor, or other trusted advisor may point you in Adamy's direction.

When a valuation is required for tax filing purposes, such as a gift or estate tax return, the Internal Revenue Service (IRS) enforces specific guidelines that must be followed. Working with an appraiser who is well-versed in these IRS guidelines ensures proper compliance and supports the successful execution of your gift or estate plan.



A qualified appraisal is one of the requirements for your estate tax return (Form 706, Schedule F) or gift tax return (Form 709) to satisfy the IRS's adequate disclosure requirements for tax reporting purposes.

A qualified appraisal is defined as a document prepared by a qualified appraiser, someone with verified education and experience in valuing the specific type of property being appraised. Typically, this appraiser holds a certification from an accredited institution, such as the Accredited Senior Appraiser (ASA) designation from the American Society of Appraisers, and regularly performs appraisals for compensation.

### The Qualified Appraisal Must Include the Following Key Details:

- Property and interest to be valued
- Effective valuation date
- Purpose and intended use of the valuation
- Statement of value
- Standard and definition of value used
- Assumptions, limiting conditions, and scope limitations
- Restrictions, agreements, or other factors influencing value
- Sources of information used in the valuation

The IRS frequently audits gift and estate tax returns, especially when substantial business interests have been transferred through an estate or a gift. A defensible business valuation from a qualified appraiser, such as Adamy, is critical to an effective estate plan and increases your chances of successfully navigating an IRS audit.

## ESTATE & GIFT TAX RATES & EXEMPTION LIMITS

An estate encompasses the total economic value of a person's assets, including real estate, businesses, financial securities, intellectual property, personal property, and more. Estate planning is the process of organizing how these assets will be transferred to beneficiaries upon the individual's death.

Effective estate planning ensures the person's wishes are honored, allowing for a smooth transfer of wealth to family, friends, or charitable causes. It can also help reduce estate taxes for you and inheritance taxes for your beneficiaries.

The following table outlines the estate tax exemption amounts for the years ended December 31, 2020 to 2023 and the years ending December 31, 2024 to 2026.

Federal Estate & Gift Tax Lifetime Exemption Amounts [a]			
Year End	Individual	Married Jointly	YoY Change
2020	\$ 11,580,000	\$ 23,160,000	n/a
2021	11,700,000	23,400,000	1.0%
2022	12,060,000	24,120,000	3.1%
2023	12,920,000	25,840,000	7.1%
2024	13,610,000	27,220,000	5.3%
2025 [b]	14,000,000	28,000,000	2.9%
2026 [c]	7,000,000	14,000,000	-48.6%

[a] Adjusted annually to reflect changes in inflation each year.

[b] Amount estimated based on inflation calculations.

[c] Estimated to be 50% of 2025 exemption amounts.

As you can see in the chart above, the federal estate tax exemption amounts are set to decrease significantly in 2026, reflecting a return to levels prior to the increases brought by the Tax Cuts and Jobs Act in 2018. Starting January 1, 2026, taxable estates valued above approximately \$7.0 million for individuals and \$14.0 million for married couples filing jointly will be subject to estate taxes at the prevailing rates, which can be found on the IRS website.

For example, if a married filing jointly taxpayer passes away in 2026 with an estate valued between \$14.0 million and \$20.0 million, the estate would be subject to federal estate taxes as shown in the chart below, whereas under current tax law, no tax would apply.

Married Examples - 2026 Federal Estate Tax Calculations			
Estate Value	Estate Tax Rate [a]	Base Amount	Total Tax
\$ 14,010,000	18%	\$ -	\$ 1,800
14,040,000	22%	3,800	12,600
14,080,000	26%	13,000	33,800
14,150,000	30%	23,800	68,800
14,500,000	34%	70,800	240,800
15,000,000	39%	248,300	638,300
15,000,000	40%	345,800	745,800
20,000,000	40%	345,800	2,745,800

[a] Assumes 2024 estate tax rates for 2026 tax calculations.

## GIFTING

When referring to estate tax planning, many professionals will mention gifting. Gifting assets is an effective strategy for transferring value and shifting tax obligations out of an estate, reducing the overall tax burden on the estate.

**Annual Gift Tax Exemption** – For 2024, individuals can gift up to \$18,000 per person in a single year without incurring any gift taxes. Typically, the beneficiary is not required to pay taxes on the gift either.

Gifts with value more than \$18,000 in a single year require the taxpayer to file a gift tax return and report the gift on IRS Form 709.

**Lifetime Estate & Gift Tax Exemption** – Also referred to as the unified credit, this exemption allows taxpayers to gift amounts that exceed the annual gift exemption without immediately incurring taxes, as long as they have remaining lifetime exemption. Any gifts over the annual exemption are deducted from the taxpayer's lifetime estate and gift tax exemption, as detailed on the previous page. This means taxpayers can make larger gifts and still avoid taxes if they have unused unified credit.

An example for 2024 through 2026 is provided below. Note the difference in the remaining exemption amounts for 2026 when the TCJA is no longer in effect.

Year	Gift Value	2024 Annual Exemption [a]	Taxable Gift	Lifetime Estate & Gift Exemption Amount	Remaining Lifetime Exemption After Gift
2024	\$1,000,000	\$18,000	\$982,000	\$13,610,000	\$12,628,000
2025	1,000,000	18,000	982,000	14,000,000	13,018,000
2026	1,000,000	18,000	982,000	7,000,000	6,018,000

[a] Assumes constant annual gift exemption amounts.

Giftng is an effective method to reduce the overall value of your estate, allowing you to transfer assets to your beneficiaries at lower tax rates when you pass away. Additionally, lifetime gifting allows the recipient to benefit from the assets sooner, maximizing the value over time. Many taxpayers can benefit from using both the annual gift exclusion and the unified credit as part of their estate planning process.

# ESTATE & GIFT TAX PLANNING FOR BUSINESS OWNERS

A business or ownership interest in a business often represents the most significant asset for taxable estates. Understanding the value of this asset is essential for developing effective gift and estate tax strategies.

For instance, gifting a portion of the business now can provide immediate benefits to the recipient while shifting value out of your final estate, making it easier to transfer additional assets to your beneficiaries upon your passing. Such a strategy can be particularly beneficial if you have a growing business and a child (or children) working in the company who are poised to take over.

## The Advantages of Gifting your Business Include:

- 1 Your child (or children) gaining immediate ownership and motivation to grow the business.
- 2 You will benefit from lower gift tax obligations and reduced lifetime exemption usage as the business grows, while also reducing the overall value of your final estate, leading to more tax-efficient distributions.
- 3 If gifting is completed before year-end 2025, you can take advantage of the elevated lifetime exemptions, assuming you haven't already used your full exemption amount.

## The Adamy Difference

When transitioning high-value business assets for gift tax planning or determining the value of a decedent's estate, a business valuation from a qualified appraiser is essential. At Adamy, we provide appraisals that stand as the foundation of your gift and estate tax filings, ensuring full compliance with IRS standards. With our expertise, you can move forward with confidence, knowing your business legacy is protected and will thrive for generations to come.

## Family Owned, Second Generation

Adamy Valuation is a family-owned, second-generation business dedicated to helping business owners achieve their succession plans. We know what it's like to go through an estate planning process and to transition ownership from one generation to the next. We can relate because we have been in your shoes.

**CALL US TODAY!**

Whether it be for estate and gift tax planning or other matters, Adamy is here to listen, to learn, and to execute your plan with confidence.

