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Client Alert: IRS Issues 2027 Inflationary Adjustments

On November 5, 2026, the Internal Revenue Service issued Revenue Procedure 2026-35, which spelled out the 2027 increases for dozens of federal exemptions, credits, and deductions that are tied to inflation.

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The key adjustment affecting estate planners and their clients is the increase in the unified gift/estate tax exemption amount. The One Big Beautiful Bill Act (Act) increased that exemption amount to an even **$15 million** for 2026. For 2027, that amount will rise to **$15.48 million**. Taxpayers can use that exemption for any taxable gifts made during their lives. Because the gift and estate transfer taxes are unified, that portion of such exemption that is not used during a taxpayer's life to exempt taxable gifts can be used as an estate tax exemption amount at such taxpayer's death. Thus, if a taxpayer uses a total of **$10.48 million** of the exemption for lifetime gifts, then the taxpayer will have **$5 million** available at death as an estate tax exemption amount. The taxpayer will only have to pay the 40 percent estate tax if his or her taxable estate exceeds $5 million.

The exemption amount for a third transfer tax, called the generation-skipping transfer GST) tax, will likewise increase to **$15.48 million** in 2027. The GST tax is imposed on the transfer of assets that skip one or more levels of gift or estate taxes, such as gifts to grandchildren or great-great grandchildren or trusts benefiting them. Interestingly, the Act codified a provision that unifies the GST tax with the gift and estate tax by providing that the GST tax exemption amount will actually be the gift/estate tax exemption amount. Therefore, the GST tax exemption amount will increase automatically as the gift/estate tax exemption amount increases.

Perhaps more relevant as a practical matter to most taxpayers is the inflationary adjustment to the annual exclusion amount. The annual exclusion is the "freebie" amount that can be used to offset all gifts made to a person or entity other than a spouse or charity. This amount is also tied to inflation and can only increase in **$1,000** increments. For the last few years, the annual exclusion amount was **$19,000** per donee. In 2027, the amount will increase to **$20,000** per donee. Thus, for example, a married couple with five children will be able to donate **$40,000** each year to each of their children and remove **$200,000** from their taxable estates.

Another inflationary adjustment that is not a wealth transfer tax adjustment but is relevant to many of clients is the top income tax brackets, which in 2027 will remain at 37 percent. However, the income threshold for single persons will increase from **$640,601** to **$661,375**, while the threshold for married couples filing jointly

will increase from **$768,701** to **$793,650**.

Attorneys in Shumaker's Wealth Strategies Service Line are tracking these developments closely. If you have questions about how these may impact you, please contact Shumaker Partner and Wealth Strategies Service Line Leader David J. Rectenwald.

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