NEUBERGER
Wealth

July 2026

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Clients Are Asking: The Estate and Gift Exemption, Charitable Contribution Limits and More

We provide answers to some commonly asked questions across planning disciplines.

We are frequently asked questions by individual clients on a range of issues, but do not always have the opportunity to address them for a broader audience. Below, we tap the expertise of various members of our Advice, Planning and Fiduciary Services team, covering estate planning, charitable giving and retirement. Feel free to reach out with new questions so that we can answer them one-on-one or in future articles.

With the estate and gift tax exemption at a relatively high level, should I still bother gifting?

Karin: For many families, the answer is still yes. A high exemption does not eliminate the value of thoughtful lifetime gifting; it simply changes the conversation. If you already have a taxable estate—or if your assets are likely to grow enough that you may have one in the future—gifting can be a powerful way to move future appreciation out of your estate. Once assets are transferred, the growth on those assets can occur outside your taxable estate, reducing the value that may ultimately be subject to estate tax.

Also, the exemption amount is a moving target. Current law may describe today's exemption as permanent, but in tax law, nothing is truly permanent—it lasts only until future legislative action changes it. With broader political momentum toward more populist tax policy, there is a possibility that the estate tax exemption could be reduced in the future. Using it now can help protect against that uncertainty.

Finally, gifting is not only a tax strategy. Properly structured trusts can help shape family dynamics, provide independent oversight and create resources that support descendants throughout the stages of their lives—starting businesses, buying homes, raising families and pursuing meaningful opportunities. In that sense, using the exemption now is not just about reducing tax; it is about creating flexibility, stewardship and a lasting framework for family success.

The interest rate environment keeps changing. How does the level of rates affect the estate planning strategies that I might choose?

Elizabeth: Interest rates can have a significant impact, and generally should be kept in mind when choosing an estate planning strategy.

The IRS publishes market-linked applicable federal rates (AFRs) monthly, which serve as minimum interest rates for a variety of estate tax planning techniques. Over the past two years, these rates have declined. So far in 2026, short-, mid- and long-term AFRs (used for below-market-rate loans between interested parties) have hovered in the 3.5%, 4.1% and 4.8% ranges, respectively. The 7520 rate, which is used to value life estates and remainder interests for gift and estate tax purposes, has ranged from 4.6% to 5.0%.

As these rates fluctuate, so too does the appeal of some of the estate planning strategies that use them. For example, low AFRs are more favorable for Grantor Retained Annuity Trusts (GRATs). The lower the assumed growth rate, the greater the potential for the GRAT assets to outperform that rate. Outperformance means more appreciation passing to the remainder beneficiaries tax-free. Lower rates also benefit families who are structuring inter-family loans. They make the loans more affordable and reduce the interest received by the lender, so less growth accrues in his estate. Furthermore, if the loaned funds are invested, for example in the stock market, their growth may exceed the interest rate and result in a tax-free gift to the family member.

In contrast, higher AFRs are more attractive for Charitable Remainder Trusts because they can provide a larger charitable deduction. Qualified Personal Residence Trusts are also more effective in such an environment. The value of the grantor's retained right to live in the house is increased with a higher 7520 rate, reducing the taxable value of the remainder gift to heirs.

How important is the location of my trust?

David: The location of your trust is definitely a key consideration when creating a trust. The laws of the state you choose at the outset will generally govern the trust throughout its life: how it is taxed, how long it can exist and how its assets may be invested, among other things. Although where you live may seem the natural choice, the laws dealing with trusts can vary widely. Some states, such as Delaware, have well-established, trust-friendly laws that offer advantages to trust grantors, trustees and beneficiaries. These may include tax savings, privacy, investment flexibility and protection from creditors.

As an example, irrevocable non-grantor trusts that are located in Delaware may be free of state and city fiduciary income taxes on undistributed income and capital gains, potentially providing significant tax savings that can enhance wealth preservation and growth opportunities.

Delaware is also one of the states that allow personal trusts to benefit families for multiple generations and, potentially, in perpetuity. With effective planning, Delaware trusts that have an extended or perpetual term can help protect assets from inheritance, estate and generation-skipping transfer taxes, allowing them to accumulate greater wealth for the benefit of future generations compared to trusts located in other states. In addition, as long as the assets remain in the trust, they should be protected from the beneficiaries' creditors.

I want my children to be my co-executors. Is that a mistake?

David: Naming your children as co-executors may or may not be a mistake, depending upon a variety of factors. In making a decision, it is important to consider (1) how complex your estate might be, (2) whether your children will have the time, interest and expertise needed to administer your estate, and (3) whether they can work together and avoid potential conflicts.

Estate administration can be very complex and time-consuming, and executors can encounter considerable legal, investing and tax issues. Executors may need knowledge in all of these areas to avoid potentially costly pitfalls.

Depending on the circumstances, it may make sense to name another individual or an institution as your executor or co-executor. An institution may be a viable option for numerous reasons, including the ability to treat beneficiaries with impartiality, capitalize on potential tax savings and deliver expertise to handle complex issues during the estate's administration. An institution can typically serve alongside one or more individuals, allowing them to draw on the institution's knowledge and expertise, while they contribute valuable personal insights into the family.

I've heard that there are new limitations on charitable deductions. How do they work, and are there ways to mitigate their impact?

Julia: The One Big Beautiful Bill Act of 2025 imposed additional limits on charitable deductions. Under previous law (and the OBBBA), deductions for cash donations to public charities (e.g., Donor-Advised Funds, or DAFs) are limited to 60% of the donor's adjusted gross income (AGI), and gifts of long-term appreciated marketable securities to public charities are limited to 30% of the donor's AGI.[1] Contributions above these levels can carry forward for the subsequent five years.

Starting in 2026, a new AGI floor will apply to charitable contributions, where itemizers can only claim a deduction to the extent that their donations exceed 0.5% of their AGI. For those whose income falls in the 37% federal tax bracket, a two-thirty-seventh (2/37) haircut also applies to all itemized deductions, including mortgage interest, state and local taxes, and charitable contributions. This effectively limits the tax benefit of every itemized deduction to the 35% rate bracket.[2] The impact of the new provisions may vary depending on your AGI, amount contributed and state tax law.

Importantly, we see multiple ways to give tax efficiently and help manage the limitations imposed under current tax law. These include donating securities, making qualified charitable distributions (QCDs) from IRAs and "bunching" multiple years' donations into a single tax year (see "Charitable Giving Strategies to Consider" on page 4).

I keep hearing that I can now put alternatives in my retirement plan. What actually changed and what does it mean for me?

Tim: Technically, retirement accounts can already invest in alternative investments, including hedge funds, private equity and private credit. However, a recent change specifically affects employer-sponsored retirement plans like 401(k)s and 403(b) plans, which have not historically included alternatives in their investment menus.

In late 2025, the president issued an executive order directing the Department of Labor (DOL), which regulates retirement plans, to change its rules to allow plan participants greater access to these investments. Then, in March, the DOL issued a "proposed" rule that would provide a safe harbor to retirement plan fiduciaries that opt to add alternatives to their investment lineups.

As is customary, the DOL also solicited public feedback during a comment period and received over 35,000 comments—in our view, an indication of high level of interest in this topic. The next step will be for the DOL to issue a final rule—which may or may not differ from the current proposed rule, depending on how much the agency is swayed by those public comments.

Once we have a final rule, likely months from now, participants in 401(k) plans may want to monitor their investment lineup and be on the lookout for announcements from employers about alternative investments. (Some may choose to add them to plans, while others may not.) Where available, such strategies may be worth considering as part of a diversified portfolio and in light of specific investor goals, time horizon and risk tolerance.

[1] Lower percentage limits apply to donations to private foundations (i.e., 30% of AGI for donations of cash and 20% of AGI for donations of long-term marketable securities).

[2] The 0.5% minimum applies first to your charitable contributions specifically, and the two-thirty-seventh (2/37) haircut then applies to your total itemized deductions, meaning that high-bracket donors face both limitations.

Charitable Giving Strategies to Consider

Donate Securities. In a year of volatility, donating appreciated securities held over a year can provide the dual benefit of a deduction and tax-free diversification out of a concentrated position. Doing so avoids recognition of capital gains that may otherwise push more of your income into the highest bracket, helping to preserve the full value of your charitable deduction.

Make a QCD From Your IRA. If you are older than 70½, and don't need the income (or the taxation) from IRA distributions, channeling donations through QCDs (up to $111,000 in 2026) enables you to bypass federal taxation and, potentially, state income taxation on the distributions. This also allows you to bypass the AGI-based limitations on deductions.

'Bunch' Donations. Donating years' worth of charitable gifts into a single year may help you exceed the 0.5% AGI-based floor minimum on deductions. With a transfer to a DAF, you may obtain a larger deductible contribution this year and then recommend charitable grants from the DAF over time. Consult with your advisors to be sure this approach suits your long-term tax profile, including the potential impact of tax carryovers of excess donations to the subsequent five years.[3]

[3] The 0.5% of AGI minimum will have a more material impact as the taxpayer's AGI increases.

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