



Take advantage of the gift tax exclusion rules

As we head toward the gift-giving season, you may be considering giving gifts of cash or securities to your loved ones. Taxpayers can transfer substantial amounts free of gift taxes to their children and others each year through the use of the annual federal gift tax exclusion. The amount is adjusted for inflation annually. For 2019, the exclusion is \$15,000.

The exclusion covers gifts that you make *to each person each year*. Therefore, if you have three children, you can transfer a total of \$45,000 to them this year (and next year) free of federal gift taxes. If the only gifts made during the year are excluded in this way, there's no need to file a federal gift tax return. If annual gifts exceed \$15,000, the exclusion covers the first \$15,000 and only the excess is taxable. Further, even taxable gifts may result in no gift tax liability thanks to the unified credit (discussed below).

Note: this discussion isn't relevant to gifts made from one spouse to the other spouse, because these gifts are gift tax-free under separate marital deduction rules.

Gifts by married taxpayers

If you're married, gifts to individuals made during a year can be treated as split between you and your spouse, even if the cash or gift property is actually given to an individual by only one of you. By "gift-splitting," up to \$30,000 a year can be transferred to each person by a married couple, because two annual exclusions are available. For example, if you're married with three children, you and your spouse can transfer a total of \$90,000 each year to your children ($\$30,000 \times 3$). If your children are married, you can transfer \$180,000 to your children and their spouses ($\$30,000 \times 6$).

If gift-splitting is involved, both spouses must consent to it. We can assist you with preparing a gift tax return (or returns) to indicate consent.

“Unified” credit for taxable gifts

Even gifts that aren't covered by the exclusion, and that are therefore taxable, may not result in a tax liability. This is because a tax credit wipes out the federal gift tax liability on the first taxable gifts that you make in your lifetime, up to \$11,400,000 (for 2019). However, to the extent you use this credit against a gift tax liability, it reduces (or eliminates) the credit available for use against the federal estate tax at your death.

Giving gifts of appreciated assets

Let's say you own stocks and other marketable securities (outside of your retirement accounts) that have skyrocketed in value since they were acquired. A 15% or 20% tax rate generally applies to long-term capital gains. But there's a 0% long-term capital gains rate for those in lower tax brackets. Even if your income is high, your family members in lower tax brackets may be able to benefit from the 0% long-term capital gains rate. Giving them appreciated stock instead of cash might allow you to eliminate federal tax liability on the appreciation, or at least significantly reduce it. The recipients can sell the assets at no or a low federal tax cost. Before acting, make sure the recipients won't be subject to the “kiddie tax,” and consider any gift and generation-skipping transfer (GST) tax consequences.

Plan ahead

Annual gifts are only one way to transfer wealth to your loved ones. There may be other effective tax and estate planning tools. Contact us before year end to discuss your options.