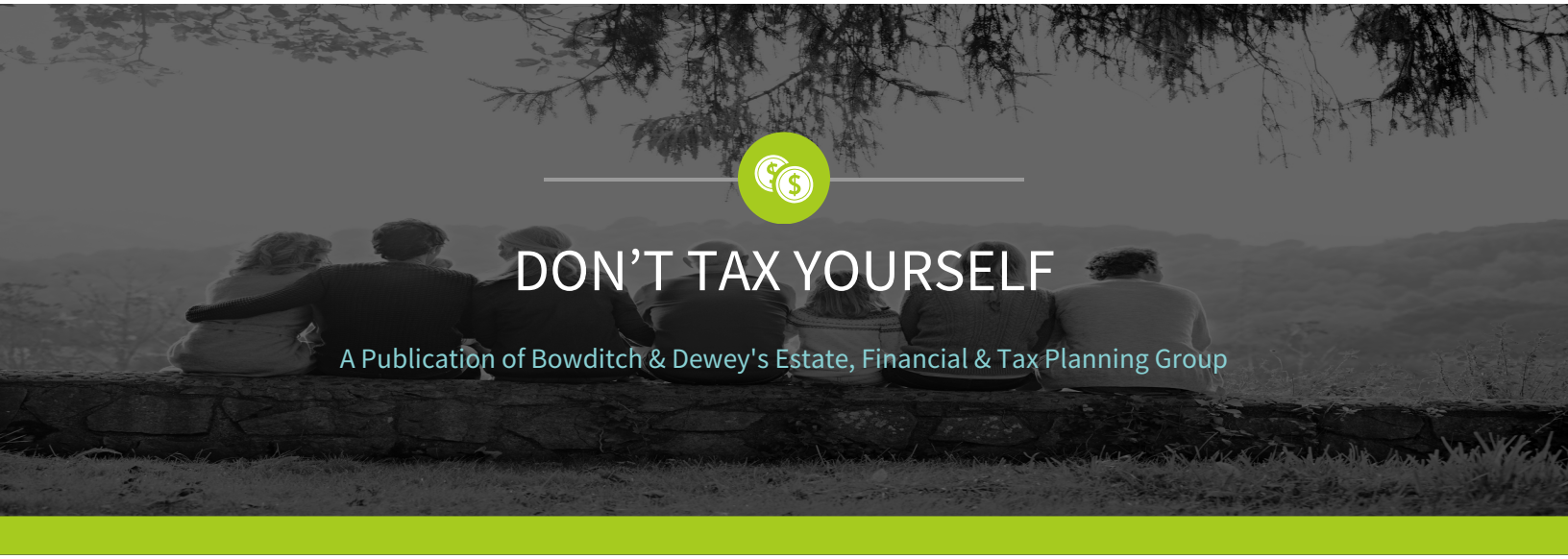

DON'T TAX YOURSELF

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Annual Exclusion Gifting

BY DARCY M. HAMILTON • DECEMBER 17, 2024

Clients are often interested in gifting to their loved ones not only to benefit the recipient of the gift, but also to reduce the donor's taxable estate for estate tax purposes. Every taxpayer can give a certain amount each year without the necessity of reporting the gift on a gift tax return or incurring gift taxes. These gifts are often referred to as "annual exclusion gifts."

The annual gift tax exclusion amount for 2024 is $18,000 per donee. This is set to increase to $19,000 per donee in 2025. For example, if John decides to gift $18,000 to each of his two children and their spouses before the end of 2024, John can remove $72,000 from his taxable estate and he will not be required to file a gift tax return to report such gifts. However, if John gifts $25,000 to each of his two children and their spouses, he will be required to file a gift tax return to report the gifts. The annual gift tax exclusion will cover the first $18,000 of each gift but the excess will be taxable.

There is no need to worry that a gift tax will be due as a result of making a gift above the annual exclusion amount. Everyone has a federal estate and lifetime gift tax exemption. In 2024 the federal estate and lifetime gift tax exemption is $13,610,000 and is set to increase to $13,990,000 in 2025. In the event you make a gift which exceeds the annual exclusion amount, the excess will simply eat into your available lifetime federal exemption amount. Unless you have already made gifts in excess of such exemption (i.e. $13,610,000 in 2024), there will be no tax due as a result of the gifts made in excess of the annual gift tax exclusion. It is important to be mindful of the federal exemption, because it changes from year to year. Without further action by Congress, in 2026 the exemption is scheduled to drop back to its 2017 level, which, indexed for inflation, is anticipated to be approximately $7 million per person.

If you decide to make a gift it is important to consider the best assets to transfer. Often people make simple cash gifts, however, all taxpayers should consider the character of the assets they are gifting. The assets that are gifted today will be gifted at today's value and there is no tax to the recipients, but the asset will carryover the donor's basis. As such, you may want to consider gifting assets you expect will continue to grow in value, but be mindful of gifting low-basis assets, which, if later sold, could result in a high capital gains tax for the recipient. Interested taxpayers should consider consulting their tax and financial advisors before making such gifts.

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