

# Taxation

## *Gift Tax Basics*

The federal government imposes a substantial tax on gifts of money or property above certain levels. Without such a tax someone with a sizable estate could give away a large portion of their property before death and escape death taxes altogether. For this reason, the gift tax acts more or less as a backstop to the estate tax. And yet, few people actually pay a gift tax during their lifetime. A gift program can substantially reduce overall transfer taxes; however, it requires good planning and a commitment to proceed with the gifts.

### **Advantages of Gift Giving**

You may have many reasons for making gifts -- for some gift giving has personal motives, or others, tax planning motives. Most often you will want your gift giving program to accomplish both personal and tax motives. A few reasons for considering a **gift giving plan include:**

- Assist someone in immediate financial need
- Provide financial security for the recipient
- Give the recipient experience in handling money
- See the recipient enjoy the property
- Take advantage of annual exclusion
- Paying gift tax to reduce overall taxes
- Giving tax advantaged gifts to minors



### **Gift Tax Annual Exclusion**

Probably the easiest way to reduce the size of your taxable estate is to make regular use of the gift tax annual exclusion. You may give up to the annual exclusion amount, indexed for inflation (\$13,000 for 2009) each year to as many persons as you want without incurring any gift tax. If your spouse joins in making the gift (by consenting on a gift tax return), you may (as a couple) give \$26,000 to each person annually without any gift tax liability.

### **Unlimited Gift Tax Exclusion**

In addition to the \$13,000 exclusion, there is an unlimited gift tax exclusion available to pay someone's medical or educational expenses. The beneficiary does not have to be your dependent or even related to you, although payment of a grandchild's expenses is perhaps the most common use of the exclusion. You must make the payment directly to the institution providing the service -- the beneficiary himself or herself must not receive the payment.

### **Gift Programs and Your Estate**

Use of the gift tax exclusion in a single year may not affect your estate tax situation significantly, but you can reduce your taxable estate substantially through a planned annual program of \$13,000 (or \$26,000 if you are married) gifts. All gifts within the exclusion limits are protected from federal estate taxes.

In addition to reducing the size of your estate, another major tax advantage of making a gift is the removal of future appreciation in the property's value from your estate. Suppose that you give stocks worth \$50,000 to your children now. If you die in 10 years and the stock is worth \$130,000, your estate will escape tax on the \$80,000 appreciation.

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