

Gift Taxes

What You Should Know Before Giving Money or Property

Many people want to help children, grandchildren, or charities during their lifetime. However, large gifts can have tax implications if they are not structured properly.

The federal gift tax system is designed to prevent people from avoiding estate taxes by transferring wealth during their lifetime.

What is a Gift?

A gift occurs when one person transfers money or property to another person without receiving something of equal value in return.

Examples include:

- Cash gifts
- Real estate transfers
- Stock or investment transfers
- Paying off someone's debt
- Purchasing property for someone else

The Unified Lifetime Exemption

The federal tax system combines gift taxes and estate taxes into one system called the Unified Credit or Lifetime Exemption.

For 2025:

- The exemption is approximately \$15 million per person
- This means most people can transfer significant assets before any tax is owed

Important:

Many gifts require filing paperwork, but no tax is actually due unless the exemption is exceeded.

The Annual Gift Tax Exclusion

You can give a certain amount each year to any number of people without reducing your lifetime exemption.

For 2025:

- \$19,000 per person per year
- Married couples can combine gifts to give \$38,000 per person

Example:

Grandparents with four grandchildren could give \$76,000 per year tax-free.

A Common Misunderstanding

Many people believe that giving more than the annual exclusion triggers taxes.

That is usually not true.

Instead:

1. A Gift Tax Return (Form 709) is filed.
2. The excess amount is deducted from the lifetime exemption.
3. Taxes are owed only if the exemption has been used up.



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- ✓ Most people will never pay gift tax
- ✓ Many gifts require reporting but not taxation
- ✓ Paying tuition or medical bills directly can avoid gift tax entirely
- ✓ The type of asset gifted can affect future taxes
- ✓ Proper planning can maximize benefits for future generations

Paying Education or Medical Expenses

Some payments are not considered gifts at all. These include payments made directly to the provider for:

Education

Tuition paid directly to a school is not treated as a gift.

Medical Care

Payments made directly to doctors, hospitals, or medical providers are not treated as gifts.

Important:

The payment must be made directly to the provider, not given to the individual.

Transfers Between Spouses

Generally, transfers between spouses are unlimited and tax-free.

However, certain transfers may not qualify if the donor retains control or ownership rights over the property.

Charitable Gifts

Gifts to qualified charities may provide:

- Unlimited gift tax deductions
- Possible income tax deductions

Charitable planning can be a powerful strategy for reducing taxable estates while supporting meaningful causes.

Who Files the Gift Tax Return?

The person making the gift is responsible for filing the return.

Important notes:

- The return used is Form 709
- The giver generally pays any tax due
- If taxes are not paid, the recipient may become responsible

Cost Basis: A Hidden Tax Issue

When property is given as a gift, the recipient usually receives the original cost basis of the asset. This is called a “carry-over basis.”

Example:

If stock purchased for \$1,650 is gifted when worth \$250,000, the recipient may owe capital gains tax on most of that increase when selling the stock.

Because of this rule, what you gift can be just as important as how much you gift.

Advanced Gift Planning Strategies

Some estate plans use more advanced techniques to reduce gift or estate taxes, such as:

- Irrevocable Life Insurance Trusts (ILITs)
- Grantor Retained Annuity Trusts (GRATs)
- Charitable Remainder Trusts (CRATs or CRUTs)
- Charitable Lead Trusts
- Conservation Easements
- Gifting assets expected to appreciate significantly

These strategies should always be implemented with professional legal and tax guidance.

Take Action!

- Review your current plan or create your first one.
- Don't wait until a crisis hits.
- Take our estate plan quiz at lawyerlisa.com/quiz



More Information:

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