

The Federal Gift Tax

Edge Magazine
12.2016

'Tis the season for giving, so here are five things you should know about the gift tax:

1. **Yes, There is a Gift Tax.** The gift tax is paid by the donor – not the recipient – of transferred property. This tax is a part of the U.S. “transfer” tax system, which also includes the estate tax and the generation-skipping transfer tax.
2. **The Gift Tax is Tied to the Estate Tax.** Thankfully, you do not owe the 40% gift tax until you’ve given away more than \$5.45 million of your property – this is the same rate and same exemption amount as the estate tax on transfers of property at death. Each taxable gift you make reduces your remaining gift exemption amount, and it also reduces your remaining estate exemption amount.
3. **Some Gifts Are Not Taxable.** Certain gifts do not count against your \$5.45 million exemption amount. In 2016, you may make gifts totaling up to \$14,000 to as many recipients as you desire, and you will not pay a tax on those transfers. You may make gifts to cover the costs of another person’s medical expenses, and as long as you pay the provider directly, any amount may be gifted without paying gift tax. You may also pay an unlimited amount of tuition directly to qualifying educational organizations as a non-taxable gift. The cost of books, supplies, and room and board don’t qualify, but you could use the annual exclusion to cover these costs.
4. **Gifts to Spouses and Charities are Deductible.** You may gift an unlimited amount to qualified charities and also to your spouse, if your spouse is a U.S. citizen. An offsetting deduction is allowed, which results in no gift tax due for these gifts. Again, these gifts do not count against your

ATTORNEYS

Lisa M. Lehan

PRACTICE AREAS

Estate Planning and
Administration

Tax

The Federal Gift Tax

\$5.45 million exemption amount.

5. **You May Need to File a Gift Tax Return.** If you give an individual gifts in one year that are valued in excess of \$14,000, then you need to file a gift tax return. This is true even if you do not owe gift tax because you haven't used all of your \$5.45 million exemption amount. The due date is April 15th of the year after you make the gift and, although due on the same date as your income tax return, the gift tax return is a separate filing.

ABOUT THE AUTHOR - LISA M. LEHAN

I am a shareholder of Koley Jessen P.C., L.L.O., located in One Pacific Place. My practice is focused on estate and tax planning. Outside of the office, I enjoy spending time with my husband and our three children. For help with your family's estate planning needs, please contact me directly at 402.343.3881.