425-880-9066
info@rjglegal.com

GREGOREK AND ASSOCIATES PLLC
Legal and Tax Services

10604 NE 38th Place
Suite 225
Kirkland, WA 98033

Gifting... An Easy and Satisfying Way to Reduce Estate Taxes

If you have a sizeable estate, you may want to consider giving some of your assets now to the people or organizations who will receive them after you die.

Why?

First, it can be very satisfying to see the results of your gifts -- something you can't do if you hold onto everything until you die.

Second, gifting is an excellent way to reduce estate taxes because you are reducing the size of your taxable estate. (Just make sure you don't give away any assets you may need later.)

And third -well - we'll wait and explain the third reason at the end.

One of the easiest ways to do this is through annual tax-free gifts (you may hear your attorney or accountant refer to these as “annual exclusion gifts”). Each year, you can give up to $14,000 to as many people as you wish. If you are married, you and your spouse together can give $28,000 per recipient per year. (This amount is tied to inflation and may increase every few years.)

So if, for example, you have two children and five grandchildren, you could give each of them $14,000 and reduce your estate by $98,000 each year -- $196,000 if your spouse joins you. If you have a taxable estate, $98,000 of annual exclusion gifts saves $39,200 of estate taxes ($78,400 if your spouse joins you).

You can also give an unlimited amount for tuition and medical expenses if you make the gifts directly to the educational organization or health care provider. Charitable gifts are also unlimited.

Gifts do not have to be in cash. In fact, appreciating assets are usually the best to give, because any future appreciation will also then be out of your estate. For example, if you want to give your son some land worth $56,000, you can give him a $14,000 "interest" in the property each year for four years. However, you’ll want to balance the estate tax savings against the potential for an increased income tax bill for the gift recipient.

As long as the gift is within these limits, you don't have to report it to Uncle Sam. Just the same, it's a good idea to get appraisals (especially for real estate) and document these gifts in case the IRS later tries to challenge the values. It's also a good idea to do this under the watchful eye of your attorney or tax advisor - they can help you design a gift plan that maximizes the overall benefits to your family, while minimizing Uncle Sam’s share.

What if you want to give someone more than $14,000? You can, it just starts using up your federal unified gift and estate tax exemption. (State taxes may also apply.) If your gift exceeds the annual tax-free limit, you'll need to let Uncle Sam know by filing an informational gift tax return (Form 709) for the year in which the gift is made. After you have used up your exemption, you'll have to pay a gift tax on any gifts over $14,000 (or whatever the annual tax-free amount is at that time). Currently, the gift tax rate is 40% and the unified gift and estate tax exemption is $5.45 million.

Which brings us back to reason number three. Even though the gift and estate tax rates are the same, it costs you less to make the gift and pay the tax while you are living than it does to wait until after you die and have your estate pay the estate tax. That's because the amount you pay in gift tax is no longer in your taxable estate.

Before making any sizable gifts, check with your attorney or tax advisor, so you can minimize taxes and maximize the benefits to your family.