

Gifts Exempt from Gift Tax

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When making gifts to individuals, there are limits on amounts that can be given without incurring a gift tax. If a gift exceeds the limit, gift tax of 40% will be applied. Below is a list of exclusions and limits that will help you determine whether a gift is gift tax free and if a gift tax return is required to be filed with the IRS to report the gift.

Annual Exclusion - \$15,000 (2021) per person, per year – no gift tax return filing required

Using the annual exclusion, every person is able to give \$15,000 (2021) to another individual gift tax free each year. There is no limit on the number of individuals to whom you may gift. If your gift to an individual exceeds the annual exclusion amount, the overage will use your lifetime exemption referenced below.

If all gifts made during the year are under the \$15,000 annual exclusion, a gift tax return is not required to be filed.

Medical payments – Unlimited – no gift tax return filing required

Each person is able to pay an unlimited amount of another individual's qualifying medical expenses as long as the payment is made directly to the medical institution. According to IRC §213(d), qualifying expenses include those incurred for the diagnosis, cure, mitigation, treatment or prevention of disease, for the purpose of affecting any structure or function of the body, for transportation primarily for and essential to medical care, for qualified long-term care services, or for medical insurance premiums. This exclusion does not apply to amounts paid for medical care that are reimbursed by insurance.

Because this is an unlimited exclusion, a gift tax return is not required to be filed.

Tuition payments – Unlimited – no gift tax return filing required

Each person is able to pay an unlimited amount of tuition expenses on behalf of another individual as long as the payment is made directly to a qualifying educational institution. To qualify, IRC §170(b)(1)(A)(ii) states the institution must maintain a regular faculty and curriculum and have a regularly enrolled student body. Books, supplies, room and board, or other expenses that do not constitute direct tuition costs do not qualify for the unlimited exclusion.

Because this is an unlimited exclusion, a gift tax return is not required to be filed.

Spousal Gifts – Unlimited – no gift tax return filing required

Spouses, who are U.S. citizens, are able to gift unlimited amounts to each other during life or at death gift tax free.

Because this is an unlimited exclusion, a gift tax return is not required to be filed.

Front-Load 529 Plan – five years of Annual Exclusion – gift tax return required

An individual is able to fund a 529 plan account using five years of annual exclusion at once, which would equate to a maximum of \$75,000 for 2021. Doing so applies the annual exclusion gift to the 529 plan beneficiary for the next five years. Therefore, if the maximum of \$75,000 is used and the annual exclusion amount does not increase in future years, no other annual exclusion gifts could be made to that beneficiary during the five year period. If additional gifts were made, it would use the lifetime exemption detailed below.

A gift tax return is required to be filed as an election must be made on the return to prorate the gift over the five year period.

Lifetime Exemption - \$11,700,000 (2021) over lifetime – gift tax return required

The lifetime exemption may be used for gifts made throughout your lifetime and/or at death. Each person is able to give a total of \$11,700,000 (2021) gift tax free. This is on top of the annual exclusion mentioned above. Any gift made during life or at death in excess of \$11,700,000 (2021) will incur a gift or estate tax.

Since this amount is a cumulative exemption, if a portion of it is used, a gift tax return is required to be filed with the IRS to track the use and remaining exemption amount.

As always, please do not hesitate to contact your advisor with any questions or concerns. We appreciate the confidence you have placed in our team at MAI to help you navigate through your unique situation.

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