



Good News About Generosity and the Gift Tax

By Toby Sorrels

Across the fence, your next-door neighbor asks how your children are doing.

Your eyes brighten a bit as you tell him your son and his wife have been waiting earnestly to buy their first home, and they found a place they love. They've lived frugally for several years, and now they've located an exceptional house on the market.

It's exceptional because it's in excellent condition—and it's in foreclosure. If they can purchase it, not only will it be a beautiful home but also a terrific investment. It's everything they have wanted and more, but they need an additional \$25,000 to get financing.

Cracking a smile, you tell your neighbor the plan you and your wife have to surprise your son by gifting the \$25,000 to them so they can get the home. You're excited to do this because you're in a position financially to help them with this significant life decision, something your hard-working parents couldn't do for you.

A Hefty Gift Tax?

Your enthusiasm fades as your neighbor says, "Oh, be careful. There may be a hefty gift tax to pay." Your brow furrows when you think about the tax implications for your son—

and possibly yourself. Will they get slammed with income tax if you give them such a sizable gift? What kind of tax will you experience if you gift that much money?

You quickly crunch some numbers and calculate how much income tax they will have to pay if you give them \$25,000. Knowing they are in the 24% tax bracket means the tax would be \$6,000. So, if you give them \$25,000, it will effectively be \$19,000.

Do you have to give the IRS \$6,000 to gift your son \$19,000? Discouraging by any standard. Also, if you gift that amount of money to someone, will the IRS tax you?

Purchasing this home is a great opportunity, and you see how it's an excellent foundational investment for your son and daughter-in-law. It will give them financial stability for years to come even if the economy fluctuates. But, if they have to pay a 24% tax on the gift, it still doesn't solve their problem.

What Do You Need to Know About Taxes on Gifts?

Encouraging News!

First, there is no state or federal income tax on gifts. So, the recipient of the gift above (the son) does not have to pay income tax – state or federal.

Second, Florida has no state gift tax! There are only two states in the US that have a state gift tax, Connecticut and Minnesota. There is a federal gift tax, but it doesn't kick in until the amount exceeds a limit, and that limit may surprise you.

Is There an IRS "However" for Gifts?

You might be wondering, isn't there always a "however" with the IRS? Yes, the IRS has a limit for gifting—for the amount you can give annually and for how much you can give over the span of your life. If you exceed those limits, you will pay tax on the gifts (or their value) that are over the limit. The tax you must pay is the gift tax.

How Much is the Gift Tax?

Depending on your particular financial situation, you could pay between 18% to 40% on gifts that exceed the limits of the exclusion. The rate of the tax depends on the amount of the gift and your final circumstances. If you exceed the limit, you should consult your CPA to assess the impact on your portfolio.

Who Pays the Gift Tax?

In nearly every case, the giver is responsible for paying the gift tax, not the recipient. A recipient only pays gift tax in particular circumstances where he or she has chosen to

pay it through an agreement with the donor. Even though recipients don't face any immediate tax consequences, if they sell a gifted property at a later date, they can incur capital gains tax.

Even Better News!

So, you can gift up to \$15,000 a year to an individual without tax implications—for you or the recipient.

Here's the better part: you and your spouse can each gift up to \$15,000 to an individual without tax implications! In fact, you can each, individually gift \$15,000 to your son and also to your daughter-in-law. You can potentially give them \$60,000 without being taxed!

What About the Lifetime Exclusion Amount?

If you are concerned about paying a hefty gift tax if you want to give gifts frequently, the lifetime exclusion amount is \$11.4 million per individual. That equates to a husband and wife combined gifting lifetime maximum of \$22.8 million.

We think the story ends well. You and your spouse can gift \$15,000 to your son and \$10,000 to your daughter-in-law without tax implications for them or you! Your gift of \$25,000 enables them to enjoy their new home, knowing it is a prudent investment.

Our Advice: Be Generous.

Depending on your financial situation, you may be able to enjoy gifting a portion of your estate to your loved ones or charitable organizations before you die. And you get to see the benefit it brings to others.

ABC Tax Consulting is uniquely qualified to address your questions about gifting. We welcome your inquiries and are delighted to help you get the most out of your portfolio, and to enjoy being generous. Call today at: 555-555-1234

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