

**'Tis The Season...  
For Tax Exempt Gifting!**  
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As the holidays are fast upon us, many are concerned with ensuring they have the perfect gifts for their loved ones. However, gifts are not only the wrapped goodies left under the tree or on a loved one's doorstep - they can be a great estate planning tool as well!

### **Annual Exclusion**

Current 2021 law provides for an annual exclusion that allows you to make tax-free gifts up to \$15,000 to any number of individuals in a single year. For married couples, that annual exclusion amount is \$30,000 per year to any person (again, to an unlimited number of individuals) in a single year. For example, a married couple could gift \$30,000 to each of their two children and four grandchildren (total of six individual recipients) each year, thereby passing \$160,000 in tax-free gifts. At a 40% estate tax, that could save up to \$72,000 in taxes (and again, this can be done each year). As a result, annual gifting up to that annual exclusion amount can be a very effective way to transfer family wealth to future generations.

Perhaps making annual gifting up to the exclusion amount even more lucrative is the fact that it does not affect your lifetime federal gift and estate tax exemption amount. Under current 2021 law, an individual can transfer up to \$11.7 million at death or during their lifetime free from federal gift and estate taxes. For married couples, that exemption is up to \$23.4 million. Transfers above the applicable exempted amount will be subject to a 40% federal gift and estate tax.



## Capital Gains Tax Considerations

When considering making lifetime gifts, it is important to note that under current law, gifts of assets made during your lifetime do not receive a “step-up” in basis for capital gains tax purposes. Therefore, the person receiving the asset would inherit your basis for capital gains tax purposes, which generally means they will pay more capital gains tax for those highly appreciated assets upon their sale.

Contrastingly, under current law, assets inherited by heirs after your passing do receive that “step-up” in basis to the asset’s fair market value at the time of your death, meaning the heir could sell the asset soon after your passing with little to no capital gains tax consequences. Therefore, when considering gifting, it is important to work with qualified professionals to determine which types of assets are best transferred and when is the best time.



## Gifts for Educational and Medical Expenses

Another great “gift” that can be a very effective estate planning tool is a gift made under what is commonly referred to as the “Ed/Med Exception”. Under this exception, payments made for an individual’s educational and/or medical expenses are generally tax-free gifts. Further, there is no specific relationship required between the person making the gift (donor) and the person whose educational or medical expenses are being paid (donee), meaning the person does not need to be your child or grandchild to qualify for this exception.

However, it is important to note that the payments must be made directly to the medical services provider (e.g., doctor, hospital) or the educational institution, etc. for said payments to be treated as non-taxable gifts under this exception.

Giving the gift of education or helping a loved one with their medical expenses is a truly special gift that lasts a lifetime.

These tax exempt gifting items are just a few techniques and considerations that, when thoroughly discussed with qualified counsel, can help preserve more of your estate for your heirs. Should you have any questions regarding the above or are considering using any of the above techniques, we invite you to reach out to our firm for more information and guidance.

Happy Holidays and Happy Tax Exempt Gifting!



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