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Lifetime Gifting

CASE SUMMARY

This article examines the use of lifetime gifting to reduce the value of an estate.

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Lifetime gifting is a simple but surprisingly effective way to reduce the value of an estate. Every person has a gift tax exemption of $1,000,000 which allows for the transfer of gifts up to this amount during life without incurring any gift tax. Even gifts made in excess of the $1,000,000 gift tax exemption may have beneficial tax results because the payment of the gift tax is preferable to the payment of the estate tax.

The gift tax is exclusive while the estate tax is inclusive. To demonstrate, assume a person would like to make a taxable gift of $150,000 but is unsure of whether to make the gift during their life or upon their death. For simplicity, assume the gift and estate tax rate is fifty percent rather than the current forty-five percent. If the gift is made during life $100,000 would go the donee and $50,000 would be paid in gift tax. If the gift was made upon death, $75,000 would go to the donee and $75,000 would be paid in estate taxes.

Every person is also allowed to make annual gifts up to the annual exclusion amount which will not count against the $1,000,000 gift tax exemption. The annual exclusion is set at $12,000 for 2009 and is per donee.

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A married couple is also allowed to combine their exclusions so that they may gift $24,000 per year to a child with no gift tax consequences. Since the annual exclusion is per donee, a married couple could make annual gifts of $48,000 to a child and the child's spouse. Also, the payment of tuition and medical expenses of another person is not considered a transfer for gift tax purposes and is an easy way to reduce a taxable estate.

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