

Maximize Your Year-End Gifts: Take Full Advantage of the Annual Gift Tax Exclusion

September 30, 2024



With the holidays approaching, many plan to make gifts of stock or cash to family members and other loved ones. By using the annual gift tax exclusion, those gifts — within generous limits — can reduce your taxable estate. In 2024, the annual gift exclusion amount is \$18,000 per recipient.

Annual gift tax exclusion in action

Federal gift tax applies to the giver of a gift, not to the recipient. By taking advantage of the annual gift tax exclusion and, if necessary, the unified gift and estate tax exemption for gifts valued above the exclusion amount, gifts can be structured to avoid gift tax.

Making annual exclusion gifts is an easy way to reduce your estate tax liability. For example, let's say that you are looking to give gifts to four adult children and eight grandchildren. In this instance, you may give each family member up to \$18,000 by year end, for a total of \$216,000 ($\$18,000 \times 12$).

Furthermore, the annual gift tax exclusion is available to each taxpayer. So, if you

are married and your spouse consents to a joint gift, also known as “split gift,” the exclusion amount is effectively doubled to \$36,000 per recipient in 2024.

Bear in mind that joint gifts and large gifts trigger IRS reporting responsibilities. A gift tax return is required if a gift exceeds the annual exclusion amount, or if joint gifts are given. (Note that there is no “joint” gift tax return. In other words, each spouse must file an individual gift tax return for the year in which they made joint gifts.)

Lifetime gift tax exemption

A gift exceeding the annual exclusion amount does not automatically trigger the gift tax. This is because the lifetime gift tax exemption can shelter gifts above the limit from tax.

Under current law, the exemption effectively shelters \$13.61 million per individual in 2024. If a gift exceeds the annual exclusion limit, the difference is simply subtracted from the individual’s lifetime exemption limit and no taxes are owed. However, tapping into a person’s lifetime gift tax exemption erodes the exemption amount available for their estate. It is worth noting that the lifetime gift tax exemption amount as it presently stands is slated to sunset in 2025, after which it will reset to \$5 million (adjusted for inflation). So how do you take advantage of the higher exemption before it disappears? Those with significant wealth who want to prioritize reducing their taxable estate in the next few years should strongly consider working with a trusted advisor to maximize the tax benefits that are currently available. As it is an election year, the political climate coupled with the sunseting lifetime gift tax exemption amount will likely result in a change for this currently favorable opportunity.

Tax-exempt gifts

Keep in mind that certain gifts are exempt from gift tax. These include gifts:

- From one spouse to the other,
- To a qualified charitable organization,
- Made directly to a healthcare provider for medical expenses, and

- Made directly to an educational institution for a student's tuition.

For example, paying the tuition of a grandchild's upcoming school year directly to the college will not count against the annual gift tax exclusion.

The right strategy for you

The annual gift tax exclusion remains a powerful tool in your estate planning toolbox. For more information or to discuss gifting strategically with your unique situation in mind, contact your Anchin Relationship Partner or Nadine Francois, a tax manager in Anchin Private Client, at nadine.francois@anchin.com.