

CLIENT NEWSLETTER

Annual Gifting

As the end of the year approaches, many of us turn our thoughts to gift-giving. While your generosity may know no bounds, the government's does. Here are some of the current rules for the tax benefits of gift giving.

- For 2005, you may give up to \$11,000 per person without incurring any federal gift tax liability, or even any need to report the gift. And you may make gifts of up to \$11,000 to as many people as you want. If you are married, you and your spouse can join to give up to \$22,000 to each recipient.
- Gifts can be made in cash, or in any other assets (valued at fair market value). In order for the gift to be considered made before the end of the year, it must be given outright to the recipient with no strings attached.
- In addition to the annual \$11,000 exclusion, you may currently give up to \$1 million over your lifetime without incurring any gift tax liability (however, you must file a gift tax return if you give more than \$11,000 to any one donee in any one year). By using this "lifetime credit" now, you transfer future increase in value on the gifted property out of your estate. If the recipient is in a lower income tax bracket than you, the income from the gifted property, including any gain on sale, may be taxed at lower rates.
- If you make payments of tuition for another person directly to a university or other qualified educational organization you may also exclude those payments from gift tax and reporting and they do not count toward your \$11,000 per person annual exclusion or lifetime credit. Contributions to a federally approved college savings plan count toward your annual gift tax exclusion, but you may "front-end-load" these plans by giving up to \$55,000 (\$110,000 for married couples joining in the gift) in a single year. The contribution will be considered to have been made over five years. We can get together to discuss the details.
- If you make direct payments of medical expenses to a medical care provider on behalf of another person, the payments do not count toward your \$11,000 per person annual exclusion or your lifetime credit.
- Finally, remember that all outright gifts to your spouse (who is a U.S. citizen) are free of federal gift tax.

Don't let the time run out on your annual gifts.