

Wealth Transfer

An effective wealth transfer plan must always have as its cornerstone strategies which take full advantage of opportunities to transfer assets without the imposition of a gift tax. These strategies comprise the “low-hanging fruit” created by the transfer tax rules, and should be carefully considered in everyone’s gift tax planning. The current transfer tax system provides several broadly applicable opportunities to make transfers that avoid gift taxes. This article discusses the rules and planning opportunities related to perhaps the most prominent of those opportunities: transfers qualifying for the “annual exclusion.”

Annual exclusion transfers are gift-tax “free” in every sense of the word. These gifts do not result in the imposition of current gift taxes, and they do not reduce one’s remaining lifetime gift tax exemption (currently \$1 million). The current limitation on annual exclusion gifts is \$13,000 per calendar year, per donee. In the case of married persons, each spouse is entitled to make annual exclusion gifts. Thus a married couple may transfer up to \$26,000 per donee, per year without exceeding the annual limitation. The limitation is adjusted periodically to keep pace with inflation.

It is important to note several important points with respect to the annual limitation. First, certain transfers to educational organizations or medical care providers for the benefit of a donee are not included in the \$13,000 limit; these educational and medical care payments can be made in addition to one’s annual exclusion gifts, but only if they are paid directly to the institution and for qualifying expenses. Secondly, while the limitation affects the amount of gift tax free transfers that may be made to each donee, it should be noted that there is no restriction on the number of donees to whom one may make annual exclusion gifts during a year. Therefore, some clients use the annual exclusion provisions to transfer significant wealth annually by making gifts to a broad class of beneficiaries, including children, grandchildren, the spouses of children and grandchildren, remote relatives and close family friends.

For detailed information please don’t hesitate to call.

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