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Don't overlook annual exclusion gifting benefits for receivers and givers

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Each year, a person may gift thousands of dollars to as many different persons as that person desires, without triggering U.S. gift tax or using one's lifetime exemption. In 2024, the annual gift tax exclusion amount is $18,000.

This simple gifting strategy offers enormous benefits for receivers and transfer tax savings for high-net-worth givers. Leveraging this basic annual exclusion tax strategy should not be overlooked when considering complex planning techniques.

Basics

Gifts can include various types of property transfers, but gifts other than cash and marketable securities may require appraisals. Certain direct payments for medical expenses and tuition are not considered taxable gifts. Spouses can "split" gifts to the same recipient, effectively doubling their annual gifting amount per recipient ($36,000 in 2024). If gifts exceed the annual exclusion, or in certain other cases, a U.S. gift tax return must be filed.

Good for the receiver

Consider a mother who gifts the maximum inflation-adjusted annual exclusion amount to custodial accounts for her newborn twins, with each twin controlling the funds at adulthood. After 20 years of gifting, and assuming a 5% growth rate, the combined value of both custodial accounts would be about $1.5 million (and $3 million if the father also gifted).

Good for the giver

For givers with estates that will be subject to estate tax at death, consistent annual exclusion gifting now can potentially reduce future transfer taxes. In 2024, the lifetime gift/estate tax exemption is $13.61 million per person (but is set to decrease to about $7 million in 2026) with a 40% tax rate on amounts over that threshold.

Consider grandparents with combined estates of $30 million who decide to jointly gift the maximum annual exclusion amount to their three children, children's spouses, and six grandchildren (12 recipients). After just 10 years at 5% growth, the total cumulative value of about $4.8 million in contributed gifts would grow to more than $6 million. This approach could save the grandparents $2.4 million of estate tax under current law. If the grandparents gifted for 20 years instead of just 10, the cumulative value of the gifts would be a staggering $18 million with an estate tax savings of $7.2 million.

Annual exclusion gifting can be made directly to adult recipients, into custodial accounts for minors, 529 college savings accounts, contributed to special irrevocable gifting trusts and paired with more sophisticated tax planning strategies.

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