Maximize your year-end giving with gifts that offer tax benefits

As the end of the year approaches, many people start to think about their finances and tax strategies. One effective way to reduce potential estate taxes and show generosity to loved ones is by giving cash gifts before December 31. Under tax law, you can gift a certain amount each year without incurring gift taxes or requiring a gift tax return. Taking advantage of this rule can help you reduce the size of your taxable estate while benefiting your family and friends.

Taxpayers can transfer substantial amounts, free of gift taxes, to their children or other recipients each year through the proper use of the annual exclusion. The exclusion amount is adjusted for inflation annually, and in 2024 is $18,000. It covers gifts that an individual makes *to each recipient each year.* So a taxpayer with three children can transfer $54,000 ($18,000 × 3) to the children this year, free of federal gift taxes. If the only gifts during a year are made this way, there's no need to file a federal gift tax return. If annual gifts exceed $18,000 per recipient, the exclusion covers the first $18,000 and only the excess is taxable.

Note: This discussion isn't relevant to gifts made to a spouse because they're gift-tax-free under separate marital deduction rules.

Married taxpayers can split gifts

If you're married, gifts made during a year can be treated as split between the spouses, even if the cash or asset is given to an individual by only one of you. Therefore, by gift splitting, up to $36,000 a year can be transferred to each recipient by a married couple because two exclusions are available. For example, a married couple with three married children can transfer $216,000 ($36,000 × 6) each year to their children and the children's spouses.

If gift splitting is involved, both spouses must consent to it. This is indicated on the gift tax return (or returns) that the spouses file. (If more than $18,000 is being transferred by a spouse, a gift tax return must be filed, even if the $36,000 exclusion covers the total gifts.)

More rules to consider

Even gifts that aren't covered by the exclusion may not result in a tax liability. That's because a tax credit wipes out the federal gift tax liability on the first taxable gifts you make in your lifetime, up to $13.61 million in 2024. However, to the extent you use this credit against a gift tax liability, it reduces or eliminates the credit available for use against the federal estate tax at your death.

For a gift to qualify for the annual exclusion, it must be a "present interest" gift, meaning you can't postpone the recipient's enjoyment of the gift to the future. Other rules may apply. Contact us with questions. We can also prepare a gift tax return for you if you give more than $18,000 (or $36,000 if married) to a single person this year or make a split gift.