

## Everything You Need To Know About Tax-Free Family Gifting

When most people think about estate planning, they think about how to transfer wealth and property *after their death* – preferably in a way that doesn't leave a surprise tax bill for their loved ones. But tax-advantaged wealth transfer can be for the living, too. With *gifting*, you can transfer wealth to your loved ones tax-free while you're still around to see them enjoy it. And while gifts aren't subject to income tax for the recipient, they can trigger a gift tax cost for the giver if not done correctly. Here's everything you need to know about this important strategy.

### **YOU CAN MAKE TAX-FREE GIFTS UP TO \$17,000 PER PERSON, PER YEAR**

"Gifts" can be made in cash or other assets – securities, closely held business interests, real estate, artworks, collectibles or any other type of property. So long as the total market value of your gifts does not exceed \$17,000 per recipient in a calendar year, the transfers are entirely gift tax-free.

Remaining under the \$17,000 per person annual threshold also avoids any gift tax

filing requirement. If your gifts to any one person total more than \$17,000 in a calendar year, you are required to report it to the IRS on a U.S. Gift Tax Return (Form 709).

### **YOU CAN MAKE AS MANY GIFTS AS YOU LIKE**

The gift and estate rules limit the total value of tax-free gifts you can make, not the number of gifts. You can give up to \$17,000 per year to as many individuals as you want without filing a gift tax return or paying gift tax. If you prefer to protect or place conditions on the use of the funds, you can also gift to trusts for recipients (instead of outright to them), though a trust must be structured a certain way to allow for the use of the \$17,000 annual gift tax exclusion.

### **MARRIED COUPLES CAN GIFT \$34,000**

The annual gift exemption is per "gifter," which means married couples can gift up to \$34,000 per recipient per year without incurring gift tax. If one spouse exceeds the per-person threshold in a calendar year, the other spouse may agree to split the gifts made by the couple for that year. A U.S. Gift Tax Return (Form 709) ▶

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must be filed to signify that both spouses have agreed to split gifts for that calendar year. (Note that married couples in community property states or states where marital property laws have been adopted are not required to split gifts – in those states, a gift by either spouse is automatically deemed to have been made half by each spouse.)

### **THERE IS A LIMIT TO HOW MUCH YOU CAN TRANSFER IN YOUR LIFETIME WITHOUT TAX**

Before you start passing out \$17,000 gifts to everyone you ever met, know that you can give more to those closest to you without gift tax by using your lifetime gift tax exclusion. For 2023, the federal gift and estate tax exemption is \$12,920,000 per person – that currently is the maximum amount you can gift or transfer in your lifetime tax-free. Any gift you make will result in a corresponding reduction in your remaining estate tax exemption. Gifts above the exemption amount generate a 40% federal gift tax.

Current estate law also allows a surviving spouse to keep the deceased spouse's unused exemption, under certain circumstances. In such a case, a married couple or a surviving spouse can make tax-free lifetime exemption gifts of up to \$25,840,000.

Keep in mind that the gift and estate tax exemption was only \$5,490,000 before being increased after 2017, and that this increase is expected to sunset after 2025.

### **GIFTING CAN HAVE AN "UNDERAPPRECIATED" BENEFIT**

Gifts over a lifetime not only removes the gift from your estate – it also removes any appreciation on the gift post-transfer. If you gift \$10,000 in stock and it appreciates to \$15,000 next year, that \$5,000 in appreciation is not considered part of your estate.

### **YOU HAVE OPTIONS OUTSIDE GIFTING**

If you're looking to transfer assets with values in excess of the gift tax exemptions without incurring tax, you still have options. Payments for qualified tuition and medical expenses can be made on behalf of a beneficiary without incurring tax. Moreover, there currently are no limitations to how much or how many of these expenses you can pay. Importantly, payments must be made directly to the school or medical institution to qualify.

It's also important to note what expenses qualify for this tax exemption. Qualifying tuition expenses only include payments of tuition for any level of primary or secondary education – they do not extend to payments for books, supplies, room and board, or similar expenses. Qualifying medical expenses include those expenses incurred for the diagnosis, cure, mitigation, treatment or prevention of disease or ailment. They also include amounts directly paid for medical insurance on behalf of the beneficiary.

These strategies, either separately or in combination, can make for an effective way to transfer wealth to loved ones without setting them up for a big tax bill. But they can be made even more effective as part of a larger estate plan. Your Baird Financial Advisor can sit down with you and walk you through a complete estate plan analysis to help you transfer your wealth to your family in as smooth and tax-friendly manner as possible.

[Please reach out if you or anyone you know would benefit from discussing this topic further.](#)

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