Abstract: Many people want to make gifts of cash and stocks to loved ones during the holidays and at year-end. If properly used, the annual exclusion allows you to give to family members and loved ones and reduce the size of your taxable estate, within limits. This article provides details.

Year-end gifts and the gift tax annual exclusion

With the holidays and year-end approaching, you might be considering making gifts of stock or cash to family members and loved ones. By using your annual exclusion, those gifts — within generous limits — can reduce the size of your taxable estate. For 2022, the annual gift exclusion is $16,000.

This covers gifts you make *to each recipient each year.* Therefore, a taxpayer with three children can transfer a total of $48,000 to them every year free of federal gift taxes. If these are the only gifts made in a year, there's no need to file a federal gift tax return. If an annual gift exceeds $16,000 per person, only the amount that exceeds $16,000 is a taxable gift. In addition, even taxable gifts may result in no gift tax liability thanks to the unified credit.

Note: Gifts made to a spouse aren't covered here, because these gifts are free of gift tax under separate marital deduction rules.

Married taxpayers and gift splitting

If you're married, a gift made during a year can be treated as split between you and your spouse, even if only one of you gives the gift. That means, by gift splitting, a married couple can use their two exclusions to give a recipient up to $32,000 a year. For example, a married couple with three married children can transfer a total of $192,000 each year to their children and the children's spouses ($32,000 for each of six recipients).

Because more than $16,000 is being transferred by a spouse, a gift tax return (or returns) will have to be filed, even if the $32,000 exclusion covers total gifts. If gift splitting is involved, both spouses must consent to it and that consent should be indicated on each gift tax return (or returns) that each spouse files.

Have you made gifts to one individual that exceed $16,000 within a year? If so, we can prepare a gift tax return (or returns) for you.

Sidebar:

"Unified" credit for taxable gifts

Gifts that are taxable because they aren't covered by the annual exclusion may still not result in a tax liability. This is because a tax credit wipes out the federal gift tax liability on the first taxable gifts that you make in your lifetime, up to $12.06 million for 2022. The amount of the credit you use against a tax liability reduces or eliminates the credit available for use against the federal estate tax upon your death.

Gifts made directly to an educational institution to pay tuition or to a health care provider to pay for medical expenses on behalf of someone else do *not* count towards the exclusion. For example, you can pay $20,000 directly to your grandson's college for his tuition this year, plus still give him a direct cash gift of up to $16,000.

Annual gifts reduce the taxable value of your estate. While the estate and gift exemption amount is historically high right now, it's scheduled to fall in 2026 to around $8 million, depending on inflation. Congress could act to extend it or could make other changes to estate tax laws. Making large tax-free gifts could help insulate you against any later reduction in the unified federal estate and gift tax exemption.

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