Ea$y Money – Taxes: Gifts (limits, tax implications)

What it is: According to the IRS, "Gift tax is a tax on the transfer of property by one individual to another while receiving nothing, or less than full value, in return. The tax applies whether the donor intends the transfer to be a gift or not. The gift tax applies to the transfer by gift of any property."

For 2016, the estate and gift tax exemption is $5.45 million per individual, up from $5.43 million in 2015. That means an individual can leave $5.45 million to heirs and pay no federal estate or gift tax. A married couple will be able to shield $10.9 million from federal estate and gift taxes. The annual gift exclusion remains the same at $14,000.

How it works: The donor is generally responsible for paying the gift tax. Under special arrangements the donee *may* agree to pay the tax instead. If you are considering this type of arrangement visit with your tax professional.

Making a gift or leaving your estate to your heirs does not ordinarily affect your federal income tax. You cannot deduct the value of gifts you make (other than gifts that are deductible charitable contributions). If you are not sure whether the gift tax or the estate tax applies to your situation you can refer to the IRS Publication 559, Survivors, Executors, and Administrators.

Why it matters: The annual exclusion applies to gifts to each donee. In other words, if you give each of your children $14,000 on or after January 1, 2013, the annual exclusion applies to each gift. The annual exclusion for 2014, 2015, and 2016 is $14,000. If you are married and want to gift as a couple you can give $28,000 on or after January 1, 2013 (including 2014, 2015, and 2016).

Who should care? The gift tax exclusion is an IRS rule, and this IRS rule has nothing to do with Medicaid's asset transfer rules. While the $14,000 that you gave to your grandchild this year will be exempt from any gift tax, Medicaid will still count it as a transfer that could make you ineligible for nursing home benefits for a certain amount of time should you apply for them within the next five years. You may be able to argue that the gift was not made to qualify you for Medicaid, but proving that is an uphill battle. (Source: Elder Law News)

NOTE: This information is provided as an educational service and is not intended as, nor should it be considered legal advice but provides general information.

For more information:

- Iowa State University Extension and Outreach Money Blogs tips, http://blogs.extension.iastate.edu/moneytips/
- Internal Revenue Service Publication 559
- Iowa State University Extension and Outreach publication PM1825C, *Retirement Transitions: Required Minimum Distributions -- Retirement: Secure Your Future*
- Iowa State University Extension and Outreach Human Sciences website at www.extension.iastate.edu/humansciences/
- Social Security, https://www.socialsecurity.gov/pubs/EN-05-10043.pdf
- Social Security Claiming Guide "The Social Security Claiming Guide," 2009. Center for Retirement Research at Boston College. Available free in pdf format at http://crr.bc.edu/booklets-brochures