Tax Planning with the Annual Gift Tax Exclusion

December is a time when many are contemplating year end gifts to family and loved ones. We thought this would be an opportunity to remind our clients and friends about the benefits afforded by the Annual Gift Tax Exclusion.

The annual gift tax exclusion can be an effective tax planning tool and tax saving strategy. It is an easy and effective way to transfer property without incurring a transfer tax.

What is the gift tax? The gift tax applies to the transfer of property by gift, from a donor (the gift giver) to a donee (the gift recipient). The property transferred can be real, personal, tangible, or intangible.

Annual exclusion amount. The first $19,000 of gifts made by a donor to each donee during the 2025 tax year is excluded from the total amount of the donor's taxable gifts for that year. Although a lifetime exclusion amount is also available to shelter gifts from current gift tax, gifts given under that provision may reduce the amount that can ultimately pass to your heirs' estate-tax free.

Lifetime exclusion. The One Big Beautiful Bill Act permanently raised the federal estate, gift, and generation-skipping transfer tax basic exclusion amount to $15,000,000 for 2026 per individual, indexed annually for inflation. This presents a tremendous opportunity for wealthy individuals and married couples to make large gifts, including those that leverage the amount of available exclusion.
Due to transferability in the estate tax, married couples can effectively protect $30 million from eventual estate and gift tax. Also useful in estate planning is the rule that gifts between spouses are not subject to gift tax at all.

Only present interests qualify. Gifts of present, rather than future, interests in property qualify for the annual exclusion. A present interest in property is an unrestricted right to the immediate use, possession, or enjoyment of property or the income from the property.

Gifts of property. If property is given instead of cash, the value of the gift is the fair market value of the property. For example, if 50 common shares of ABC Inc. are trading at $10,000 on the date the shares are transferred to the donee, $10,000 is the value of the gift for gift tax purposes and, therefore, is covered by the $19,000 annual exclusion.

Spouses splitting gifts. If spouses consent to split all gifts that are made by either one of them during any year and each spouse is also a U.S. citizen or resident, then the gifts are treated as having been made one half by each spouse. Therefore, spouses who consent to split their gifts can transfer twice the annual per-donee exclusion amount each year, free of gift tax ($38,000 for 2025).

This alert covers only the surface level of the tax rules related to the Annual Gift Tax Exclusion that could potentially benefit you or your family. The tax rules in this area are complex and there are many issues to consider in taking advantage of the Annual Gift Tax Exclusion. Please contact us if you have questions, want more information, or would like us to help you with gift planning so that by working together we can deliver the best tax results for you.

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