

Annual Gift Tax Exclusion: What It Can Mean for You

Did you know that you may now give gifts worth up to \$11,000 to a relative or friend each year and not have to worry about gift tax? And, there is no limit to the number of \$11,000 gifts a taxpayer can give in any taxable year. For the \$11,000 exclusion to apply, however, the recipient must have immediate and complete benefit of the gift.

The annual gift tax exclusion allows you to give gifts up to \$11,000 per donee without using any of your \$1 million (up from \$675,000 in 2001) allowable lifetime exemption from gift and estate tax. However, if your gift to an individual exceeds \$11,000, you must file a gift tax return.

Individuals whose plans include lifetime gifting may choose to make a series of annual gifts of any denomination up to \$11,000 to take advantage of the annual exclusion.

Example: A mother would like to give \$110,000 to each of her two children. She wants to preserve as much of her estate and gift exemption as possible, knowing that her estate will be subject to estate tax when she dies. If she

gives the full \$110,000 to each child in 2002, she'll use \$198,000.

([\$110,000 - \$11,000] x 2) of her lifetime gift/estate tax exemption. But if she spreads the gift over 10 years (\$11,000 per year), she won't use any of her lifetime exemption.

Special Rule: Qualified Tuition Programs – Qualified tuition programs (QTPs), also known as Section 529 plans, are accounts set up to save for tuition expenses of the named beneficiary – a child or grandchild, for instance. Contributions are considered to be gifts.

In order to take advantage of the annual gift exclusion, a taxpayer may choose to treat a single QTP contribution as though it were made over five years. For example, a single \$55,000 QTP contribution can be treated as five

\$11,000 annual contributions made over five years.

To make this election, file Form 709 and check the box on Schedule A, line B.

// The annual gift tax exclusion increased to \$11,000 in 2002, the first increase since 1981. That's good news for generous people who want to make gifts, but don't want to worry about gift tax. //

—Brenda Schafer,
MSA, CPA, CFP™,
EA, Senior Tax
Research Coordinator