



# Trusts & Estates Newsletter

Spring 2016

## LIMITS ON ANNUAL GIFTS: FACT AND FICTION

"I can't give more than \$14,000 a year to my kids." True or False? The answer is False. For most people, this is an artificial limit. And for the few of you where it matters, it still shouldn't stop you from making gifts.

To get to the bottom of this, here are some quick facts on the Federal Estate and Gift Tax and the Washington Estate Tax.

**1. When does the IRS tax gifts?** Before we look at the \$14,000 annual exclusion, it's important to know the lifetime exemption rules. The current lifetime exemption from Federal Gift and Estate tax is \$5,450,000. That means you can die with \$5,450,000 and pay no federal estate tax when transferring it to your beneficiaries. (If you're married, you may be able to double that amount.) Or, you can give away \$5,450,000 during your lifetime and pay no federal gift tax. Or you can give a combination of the two - for example, you could give \$1 million during your lifetime tax free, and then after your death you could still give up to \$4,450,000 to your heirs free of estate tax.

**2. Does every gift count toward that total?** In addition to the lifetime exemption, there is a federal annual gift tax exclusion of \$14,000 per year per recipient. So you could, say, give \$14,000 to ten people in 2016, and pay no gift taxes. And the \$140,000 in gifts would not count toward your \$5,450,000 lifetime exemption. (Note that some gifts to trusts don't get this exclusion.)

**3. What happens if I give someone more than \$14,000?** If you give more than \$14,000 a year to any one person, you just need to file a federal gift tax return (Form 709) by April 15th of the following year. This lets the IRS know you used up some of your lifetime exemption. But until you've given away more than \$5,450,000 during your lifetime (not counting annual exclusion gifts), you don't pay a dime of gift tax.

**4. Note that Washington has its own rules.** Unlike most states, Washington has its own Estate tax. The lifetime estate tax exemption in Washington is \$2,079,000. When an individual dies with more than that amount (in investments, land, etc.), their estate will likely have to pay taxes before anything goes to beneficiaries.

**5. But, Washington doesn't track lifetime gifts.** A big difference between the federal system and the Washington system is that Washington has no gift tax. So if you give \$1 million during your lifetime, it doesn't impact your Washington estate tax exemption. You can still die with \$2,079,000 free of Washington Estate tax.

**6. By the way, recipients aren't taxed.** Gifts aren't income, so recipients don't need to report it and won't pay tax on it.

The GTH Trusts & Estates Group provides individual and family estate planning to clients throughout the Puget Sound area. We strive to provide superior, personal service by preparing wills, trusts and other contingency-plan documents tailored to each client's unique needs. We also analyze and help to carry out lifetime personal planning arrangements, advise those administering estates, trusts and guardianships, and help to resolve disputes among heirs and with taxing authorities. Our group includes a Certified Elder Law Attorney, a former CPA, and a member of The American College of Trust and Estate Counsel.

### QUESTIONS

To discuss any aspect of your estate planning, please contact the attorney with whom you work or any of the following members of our Trusts & Estates Group.

JULIE DICKENS, CHAIR  
jdickens@gth-law.com

LAWRENCE R. GHILARDUCCI JR.  
lghilarducci@gth-law.com

LISA KREMER  
lkremer@gth-law.com

ALAN D. MACPHERSON  
amacpherson@gth-law.com

ANDREA H. MCNEELY  
amcneely@gth-law.com

EILEEN S. PETERSON  
epeterson@gth-law.com

### THE TRUSTS & ESTATES GROUP

Gordon Thomas Honeywell LLP  
Tacoma: (253) 620-6500  
Seattle: (206) 676-7500  
Toll-free: (800) 240-5051  
www.gth-law.com



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## Limits on Annual Gifts continued...

### So what does this mean to you?

- Unless your wealth is close to \$5 million as a single person, or \$10 million as a married couple, the annual \$14,000 exclusion is a moot point. Just remember to tell the IRS about gifts you give that are worth more than \$14,000, including land.
- If your wealth is in the \$5 to \$10 million range and up, annual gifts of \$14,000 make a lot of sense. But you should also consider making larger gifts. While they do count toward your lifetime federal exemption, they can help keep inflation out of your estate.
- And if you live in Washington, the threshold for considering significant gifts is even lower. Thoughtful gifting might bring you within the \$2 million Washington exemption (\$4 million for couples who have the right planning) and avert the Washington estate tax altogether.

Keep in mind that there are other factors to consider in gifting. Will you have enough assets left for your own care? Should you put the gift in trust? Should you hold onto an appreciated asset so the asset gets a "stepped up" basis at death and your heirs avoid the capital gain?

If you'd like to discuss gifts and other estate planning techniques that are right for you, please contact any member of our Estate Planning Group.

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