Winter 2016 Bulletin

TWO (OUT OF THREE) GIFT & ESTATE TAX EXCLUSION AMOUNTS WILL INCH UP IN 2017

Around this time every year, the IRS looks at whether there has been a year-over-year increase in the Consumer Price Index and announces inflation adjustments to the federal gift and estate tax exclusion amounts for the following calendar year. In general, these exclusion amounts tell a U.S. citizen or resident how much he or she can give away without incurring gift and/or estate tax on the transfer. Individuals and couples make use of these amounts, both during lifetime and at death, to transfer wealth to family and friends on a tax-free basis. When the amounts go up, it presents an opportunity to increase the tax-free giving. Given that inflation has been relatively sluggish, will any of these exclusion amounts be higher in 2017 than they are currently? According to the announcement just released by the IRS, the answer is "yes" for some, but not all.

Here are the specifics on what next year will bring for the following federal estate and gift tax exclusion amounts:

- **Annual exclusion for lifetime gifts.** The "annual exclusion" is the amount an individual is allowed to exclude from his or her total taxable gifts in a calendar year for gifts of present interests to any one recipient during that year. This is the figure that tends to come up in conversation most often, because many individuals and couples have a practice of making annual-exclusion gifts to children and grandchildren. Unfortunately, this is the one exclusion amount that will remain *unchanged* in 2017. Therefore, in 2017 the first $14,000 of gifts of present interests to any one person will not be included in the total amount of a taxpayer's taxable gifts for that year. (It remains some consolation, however, that taxpayers can make tax-free transfers for qualifying educational or medical expenses, in addition to annual exclusion gifts.)

- **Special annual exclusion for lifetime gifts.** There is also a special annual exclusion for gifts to a non-citizen spouse. The 2016 amount of $148,000 will *increase ever so slightly* next year. In 2017, the first $149,000 of gifts of present interests to a spouse who is not a citizen of the United States will not be included in the total amount of a taxpayer's taxable gifts.

- **Applicable exclusion for unified credit against estate tax.** This applicable exclusion is the combined amount an individual who is a U.S. citizen or resident can transfer over lifetime and/or at death that is excluded from gift tax and/or estate tax. For determining the amount of the unified credit against estate tax for an estate of any decedent dying

720 Howe Avenue, Suite 112
Sacramento, CA 95825
916.569.8111
www.johallawoffices.com

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in 2017, the applicable exclusion amount will be $5,490,000. This represents an *increase* over the 2016 amount, which now stands at $5,450,000.

For certain taxpayers, it can make good sense – all other things being equal — to take advantage of the opportunities presented by these increased exclusion amounts to transfer assets to loved ones without paying gift or estate tax on the transfer.

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