

WORKING WITH CURRENT FEDERAL ESTATE AND GIFT TAX

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In 2016, each U.S. citizen is allowed a unified gift and estate tax exemption of \$5.45 million before estate taxes are owed to the IRS. Therefore, with proper planning, a couple would be able to shelter \$10.9 million before paying estate taxes to the IRS. This amount is indexed for inflation in the future which can be changed by Congress at any time. These amounts allow most individuals and couples to not pay estate taxes upon their death with proper planning.

To properly protect this amount for each spouse, tax planning through “portability” must be used. This feature was made permanent just recently by Congress. Portability allows a surviving spouse to use the unused estate exemption of their deceased spouse. Therefore, the surviving spouse can use what is left of the estate exemption not used by the first to die and add it to his/her own. This allows the couple a total exemption of twice the exemption of one person. To take advantage of this law, an estate tax return must be filed upon the death of the first spouse. This must be done even when there is no estate tax due.

While people are still living, gifts can be made each year for the annual gift tax exclusion amount to shelter money from estate taxes and not use any of their unified estate and gift tax exclusion of \$5.45 million. In 2016 the annual gift tax exclusion is \$14,000 per recipient. Therefore, a husband and wife can each give \$14,000 to 5 recipients and not pay gift taxes on \$140,000. If the gift is at or below the annual gift tax exclusion amount, a gift tax return would not be due. Additionally, as you give gifts you are also reducing your estate so there will be less estate tax after you are gone.

The gift tax exclusion for payments of school tuition for students is also still available. However, this exclusion does not extend to books, fees and living expenses.



If you would like to discuss your tax situation or any other estate planning tax matter, please contact your Account Manager or [Chuck Gray, CPA, JD](#), at (314) 205-2510 or via email at cgray@connerash.com.