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Gifting to individuals

Estate planning quick facts

Lifetime gifts can be a simple and effective way to transfer wealth—provided that you know the tax rules. Here's a brief overview of some ways to make transfers without incurring any estate or gift tax liability.

Annual exclusion gifts

You can give up to $15,000 per year (in 2021) to as many people as you like. These gifts can be made to anyone, not just family members. If you are married, you and your spouse can give $30,000 per beneficiary per year. Annual exclusion gifts are attractive because:

- They reduce your taxable estate—potentially saving a 40% estate tax.
- They're simple—generally no tax reporting is required.
- There are no lifetime limits, as long as you stay within the annual limits.

Some key points you should understand:

- To qualify for the annual exclusion, a beneficiary must have a "present interest," which means the right to use or enjoy the property. Special planning is required if you want to make annual exclusion gifts to a trust; your attorney can help with this.
- Gifts to individuals are not taxable income to the beneficiary, and do not create any income tax deduction for you.
- If you give appreciated securities, your cost basis and holding period "carry over" to the beneficiary.

Lifetime exclusion gifts

You can make gifts above $15,000 per person per year, without paying gift tax, up to an $11,700,000 (in 2021) lifetime limit plus any unused exclusion amount from a deceased spouse (provided the proper election was made). Let's say you give $200,000 to a family member. The first $15,000 is covered by the annual exclusion; the remaining $185,000 is applied to your lifetime exclusion. If this was your first gift exceeding annual exclusion limits and you have no unused exclusion amount from a deceased spouse, you would have $11,515,000 of lifetime exclusion remaining. When making larger gifts, keep in mind:

- A gift tax return is required. You must report the gift, but will not owe gift tax unless your applicable exclusion is exhausted.
- In effect, these lifetime transfers "use up" part of the exclusion that would otherwise be available at death to reduce your estate tax.

A key benefit of using your applicable exclusion to make gifts is that all of the future appreciation on the gifted assets is removed from your taxable estate.

Special rules for direct gifts of tuition or medical expenses

You can pay *tuition* or *medical expenses* for someone else, without limitation. These gifts do not count against the annual exclusion or lifetime gift exclusion. There are some important rules:

- You must pay the school or medical provider directly. (Funds given to the beneficiary directly will not qualify for this special rule.)
- "Tuition" means tuition only—not books, supplies, fees, or room and board.
- No specific tax reporting is required, but keep good records. It is your responsibility to be able to prove that your gift qualified under this rule.

Talk to Wells Fargo Advisors

We welcome the opportunity to work with you to help you achieve your planning goals. Contact us for more information and to learn about how we can assist you.

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