

# WHAT ARE THE GIFT TAX EXCLUSIONS?

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**JOHN R. VERMILLION**  
Texas Estate Planning Attorney



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Tax minded legislators were not thrilled with this opening, so they endeavored to bring in a gift tax. Their efforts were successful in 1924 when the gift tax was first enacted. A couple of years later, the other side of the argument won out on Capitol Hill when the gift tax was repealed.

The respite from the tax was short-lived, because it was reenacted in 1932. This tax has been in place ever since then, and during the 1970s, it was unified with the federal estate tax.

## **ANNUAL GIFT TAX EXCLUSION**



If you are concerned about owing back taxes from all of those birthday gifts that you have given over the years, we have some good news for you. There are some gift tax exclusions that you can utilize to give tax-free gifts. One of them is the annual gift tax exclusion.

Each calendar year, you can give up to \$14,000 to an unlimited number of gift recipients, and the gift tax would not be applicable on the transfers. To be clear, there is no limit on the total amount that you can give tax-free, as long as you don't give more than \$14,000 to any one person.

This \$14,000 figure is in place for the rest of 2016. However, it has periodically been increased to account for inflation over the years, so this \$14,000 figure is not permanently etched in stone.

## EDUCATIONAL GIFTS

There is no better gift than the gift of education. If you can provide a college education for your loved ones, you are giving a gift that they can draw from throughout the entirety of their lives.

Fortunately, there is an educational gift tax exclusion. You are allowed to pay tuition for students without incurring any gift tax liability. There is no limit to the amount that you can spend on tuition, and you can help an unlimited number of students free of taxation.

This exclusion only extends to tuition, and you have to pay the institutions directly. You cannot use this exclusion to give a direct cash gift to a student with the understanding that he or she will use the gift to pay for tuition.

When it comes to other educational expenses that would not fall under this



exclusion, like books, fees, and living expenses, you could use your \$14,000 per person annual exclusion to provide some extra support. Plus, each taxpayer has his or her own \$14,000 per person exclusion. So, if you are married, you and your spouse could pass along as much as

\$28,000 to any number of individuals each calendar year free of the gift tax. This can certainly provide an underpinning for a student that you would like to assist.

## **MEDICAL EXPENSES**

In addition to the educational exclusion, there is also an exclusion that allows you to pay medical bills for others free of the gift tax. This exclusion extends to health insurance purchases that would benefit other people.

## **UNIFIED LIFETIME GIFT AND ESTATE TAX EXCLUSION**

The last exclusion that we will look at is the unified lifetime gift and estate tax exclusion. This exclusion stands at \$5.45 million for 2016.

If you wanted to give a gift to an individual that exceeded \$14,000 in a calendar year, you could use a portion of this exclusion to give the gift tax-free. However, you would be reducing the amount that would be left to apply to your estate and to future lifetime gifts.

## **SUMMARY**

There is a gift tax in place, and it is unified with the estate tax. There are a number of gift tax exclusions that you can use to give gifts in a tax-free manner.

The annual gift tax exclusion allows you to give up to \$14,000 to gift recipients free of taxation. You can pay medical bills and school tuition without incurring any tax liability well.

The unified lifetime gift and estate tax exclusion applies to gifts that exceed \$14,000 to individuals, and it also applies to the estate that will be transferred after you pass away.

If you have questions about taxes or any other estate planning matter, set up a consultation with a licensed estate planning attorney.

## **REFERENCES**

Forbes

<http://www.forbes.com/sites/ashleaebeling/2014/10/30/irs-announces-2015-estate-and-gift-tax-limits/>

IRS

<https://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Estate-and-Gift-Taxes>

## About the Author

### John R. Vermillion



John R. Vermillion works as an estate planning and probate attorney and is licensed to practice in Texas, Louisiana, Oklahoma, and Tennessee. A native Texan, he graduated from Texas Christian University in 1974 receiving a Bachelor of Arts Degree in Political Science. In 1977, he received his Juris Doctor degree from the Louisiana State University Law School.

Upon graduation from law school, Mr. Vermillion worked extensively as a corporate attorney in the fields of oil and gas exploration and production, real estate development, finance and estate planning. He served for many years as corporate counsel and Vice President of a private independent oil and gas company.

Mr. Vermillion is a member of the State Bar of Texas, the Dallas Bar Association, the Louisiana State Bar Association, the Oklahoma Bar Association, and the Tennessee Bar Association. He is a member of the American Academy of Estate Planning Attorneys and the National Academy of Elder Law Attorneys.

Also active in his community, he currently serves as a director for the Charles Coody Classic Golf Tournament which benefits Catholic Charities of Fort Worth, Texas. A member of the French-American Chamber of Commerce, Louisiana Chapter, Mr. Vermillion pursues their goal of promoting and developing commercial and financial relations between France and the United States. In addition, he serves on the TCU Dallas Alumni Board and sponsors the Dallas area NAMI Walkathon (National Alliance for Mental Illness).

Coming from a family of entrepreneurs, Mr. Vermillion has owned and operated his own businesses, including an historic inn. His experience has given him a hands-on understanding of the legal and practical issues facing his clients and their estate planning needs.

The Vermillion Law Firm, LLC  
[www.vermillionlawfirm.com](http://www.vermillionlawfirm.com)

7616 LBJ Freeway #120  
Dallas, TX 75251  
Phone: (972) 386-4560  
Toll Free: (888) 567-574