News & Updates

June 21, 2022

GRIFFING & COMPANY, P.C.

Certified Public Accountants and Consultants

Should I File a Gift Tax Return?

In the heat of tax season, we tend to focus only on the returns we have filed in the past while overlooking the possibility of needing to file any other forms. Now that spring tax season is behind us, let's take a closer look at gift tax returns to make sure we don't run the risk of getting on the IRS' radar and get harsh penalties along with other legal consequences.

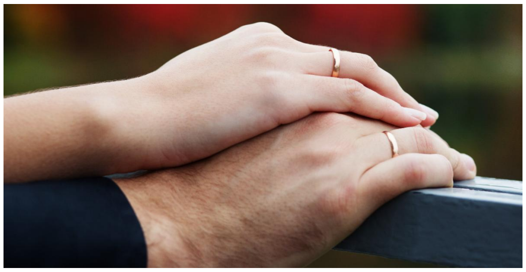
First things first, *what is a gift tax return*? Let's take a crash-course on the return known as Form 709. This is a federal tax return that must be filed by the giver of the gift in certain cases. These returns are filed to maintain a running total of gifts made during your lifetime, so the IRS knows if or when you exceed your lifetime exclusion.

If you give a single person more than $15,000 for 2021, or $16,000 for 2022, the giver generally must file Form 709 along with their annual tax return. While that's the annual limit, the lifetime exemption limit is $11.7 million for 2021 ($12.06 million for 2022). Under the current rules, the lifetime exemption is scheduled to increase each year through inflation adjustments until 2025 when the current gift tax exemption law sunsets and the lifetime exemption reverts back to $5 Million plus adjustment for inflation.

Now that the bare basics have been covered, let's review if filing Form 709 is ideal for you.

Gift taxes and estate taxes are connected to each other. They both share the same tax rate and lifetime exemption amount. However, a main difference between the two is that the estate tax is a tax on your right to transfer property at death, while gift taxes apply to transfers made during life. Gifts up to the annual exclusion limit are a good way to reduce your taxable estate. Gifts that are over the annual exclusion limit may also reduce your estate tax exemption.

You may choose to file Form 709, even if you aren't required, to establish the value of your assets and provide support in case you get an audit from the IRS. If you give a gift over the annual exclusion limit, you'll have to file a return even if you don't owe any gift tax because of the lifetime exemption that was previously mentioned. The gift tax return deadline is the same as your Form 1040 including extensions.



Now, if you're married, it's a bit different. Married couples who file together can do something called gift splitting. Essentially, they can combine their individual allowances as if they both contributed half the amount each.

For this option, both spouses must agree both to the gift and to the situation in which the gift was given whenever they file their taxes. However, if you decide to do this, both spouses will need to file a gift tax return to gift split regardless of the amount of the gift.

Sometimes, gifts can be excluded from gift tax reporting. If they're excluded, you can make unlimited gifts without needing to file any forms or returns. For example, gifts to IRS-approved charities, gifts to your US citizen spouse, or gifts covering another person's tuition or medical bills if paid directly to the provider rather than to the individual. There are other different possibilities in which this may apply, which is why it's always best to confirm with your accountant.

Now that we have discussed what a gift tax is, how it's incorporated with other taxes, and what the exceptions are, it's important to acknowledge that navigating through the ins and outs of taxes can feel difficult and confusing. Discussing with your accountant in further detail to manage your finances can greatly improve your overall financial health. Hiring professionals can be challenging, but the right ones will help to develop your financial strategy to reach your goals.

Please do not hesitate to call or email info@griffing.com at Griffing & Company, P.C. for any questions you may have.

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