‘TIS THE SEASON OF TAX-EXEMPT GIVING

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With the December holidays upon us, gift giving is definitely on our minds. While channeling that holiday, yule tide spirit, I started thinking about how much (or how little) you can actually give as a gift before Uncle Sam is looking for his piece of the holiday pie. Taxing gifts! That’s downright scrooge-like! But, do not despair, the IRS is not going to seize Santa’s sleigh, or haunt your office white elephant exchange. The following highlights the most common methods of tax-free giving:

Annual Gift Exclusions

In 2024, all taxpayers may give up to $18,000 to as many individuals as they want, tax free, and in 2025 that number is increasing to $19,000. Married couples can give twice that amount! If you give one person more than that annual exclusion amount, still, no tax due, but you have to file a federal gift tax return so the IRS can track your lifetime giving. Thanks to the 2017 Tax Cuts and Jobs Act (“TCJA”), all taxpayers may give away $13.61 million dollars in their lifetime before they have to pay any federal gift tax, and that number is increasing automatically, due to inflation, to $13.99 million in 2025. But keep in mind, the lifetime exemption may be reduced to about $7 million per taxpayer at the end of 2025, if the TCJA is allowed to expire.

Education and Medical Expenses

Want to give more, tax free, than the annual exclusion allows? Pay a friend or family member’s educational or medical expenses. Payments made directly to an educational institution or medical provider, on behalf of someone else, can be paid in any amount, tax free, and no federal gift tax return needs to be filed. These payments also do not count towards your lifetime or annual exclusion either, so you can still give the person whose college tuition bill you just paid, up to $18,000 cash, in the same year. The sky is the limit for this exemption!

529 Plan

529 plans are education savings plans that grow income tax free, and those funds can then be withdrawn income tax free when used for qualified educational expenses. Typically, opened by a parent or grandparent to benefit a child or grandchild, these accounts can be used to pay for K-12

education, apprenticeship programs, and student loan repayment, in addition to college tuition and room and board. Further, unspent funds, up to $35,000 can be rolled into a Roth IRA. 529 plans can also be "super-funded" with five times the annual exemption in one year, with no gift tax due, and no gift tax return required. That's $90,000 from one person or $180,000 from a married couple! In some states—*Pennsylvania is one of them* – the person who funds the account may be eligible for a dollar-for-dollar state income tax deduction!

Charitable Donations and QCDs

Nothing leaves you with that full heart feeling more than helping those in need, and the tax code allows taxpayers to deduct from their federal income tax liability charitable donations of up to 60% of their adjusted gross income. Through Qualified Charitable Distributions (QCDs,) taxpayers 70 ½ years old and older can distribute up to $105,000 in 2024 directly from their IRA to qualified charities of their choice with no income tax due! This is a real win because IRA contributions are already pre-tax!! QCDs even count toward a taxpayer's required minimum distributions for the year.

There you have it...the perfect holiday gift. No crowds, no wasted hours searching online. Just give cash… But don't forget to follow the rules to make sure your gift is tax free!

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