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Swan Songs: Gifting, Simplified

Swan Songs is a series designed to explain important estate planning concepts to advisors and their clients in an easily digestible way.

Authors	Date	Topic
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Gifting, Simplified

The federal estate and gift tax *unified credit* and the *gift tax annual exclusion*—two independent, tax-advantaged methods for transferring wealth—have one important attribute in common: They allow individuals to gift certain amounts to recipients without incurring any federal gift tax obligations. Below, we explain how each one works.

The federal estate and gift tax unified credit—also known as the *lifetime exemption*—allows individuals to transfer a certain amount of their estate free of federal tax either during life or upon death. As of 2025, this exemption amount is set at $13.99 million per individual, allowing couples to combine their exemptions to shield up to $27.98 million from estate and gift taxes. Per the One Big Beautiful Bill Act, the exemption amount will increase to $15 million per individual in 2026.

In contrast, the gift tax annual exclusion allows individuals to give a certain amount to recipients each year without incurring federal gift tax or using any of their lifetime exemption. As of 2025, the annual exclusion amount is set at $19,000. This means that an individual can gift up to $19,000 to as many people as they wish without triggering any federal gift tax obligations. Married couples may choose to each give $19,000 or jointly give up to $38,000 per recipient and elect to split those gifts.

The unified credit is used for gifting amounts that exceed the gift tax annual exclusion amount. For example, if an unmarried individual (the grantor) gives $19,000 to each of their three children in a given year, those gifts do not reduce the grantor's lifetime exemption. However, if the grantor instead gives $20,000 to one child in 2025, the $1,000 that's above the annual exclusion would count against the grantor's lifetime exemption.

Any portion of the unified credit that's not used during an individual's lifetime will be applied toward the value of their taxable estate at death. Estates valued at less than the amount of the remaining unified credit won't owe federal estate taxes.

Due to uncertainty over the TCJA's possible sunsetting, many concerned families have been choosing to make large gifts *now* in order to lock in the current unified credit amount. An additional benefit of making large gifts during life is that once gifted, any future appreciation on the gifted asset will occur outside of the grantor's taxable estate.

Once an asset is gifted, any future appreciation on the gifted asset will occur outside of the grantor's taxable estate. However, no matter whether individuals are considering the unified credit or the gift tax annual exclusion—or a combination of both—it's important to be aware that gifted assets typically retain the grantor's cost basis while inherited assets typically receive a step-up in basis. For this reason, it's important to examine any built-in capital gains consequences when gifting assets other than cash.

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