Downey & Company, LLP

Gifting Strategies to Reduce Estate Taxes

No one wants to think about, never mind, plan for the inevitable, but if you don't utilize gifting strategies available to you now, the IRS will get a larger portion of your estate in the future. Many gifting strategies involve charities; however, gifting to family members can also reduce or avoid taxes altogether and is an effective wealth transfer technique.

Here are a few approaches to consider if you plan on gifting to family members:

1. **Annual Exclusion Gifts** – You can give up to $19,000 each year to a family member (or any other person) free of the gift tax without any reporting or paperwork involved in the 2025 tax year. If you are married, your spouse can give $19,000, doubling the tax free amount. These gifts are not added back to your taxable estate, and all future appreciation on them is excluded from your estate as well.
2. **Large Annual Exclusion Gifts** – You can gift more than $19,000 per year ($38,000, if married) to a family member by filing IRS Form 709, the Gift Tax Return. However, gifts over $19,000 reduce the amount you can leave tax-free at death. The current estate tax exemption is $13.99 million for the 2025 tax year. You will not owe any gift tax on gifts over $19,000, as long as you don't use up your $13.99 million estate tax exemption. The amount exceeding $19,000 is added back to your taxable estate, although all future appreciation on them is excluded from your taxable estate.
3. **Pay College Tuition or Medical Bills Directly** – These are the two exceptions to the annual gifting limit. The $19,000 limit does not apply if you pay medical expenses or college tuition directly to the provider. These gifts reduce your taxable estate.
4. **529 College Savings Plans** – In this accelerated gifting strategy, you can give up to five years' worth of $19,000 annual exclusion gifts, up to $95,000, all at once into a 529 college savings plan. If you are married, you and your spouse can double that to $190,000. It is deducted from your taxable estate and you can have control over the assets until they are distributed. Tax free distributions may be made for tuition, fees or books. As a bonus to this strategy, many states allow income tax deductions for these types of contributions. Please consult your tax accountant for your state's guidelines and limitations.

A little planning now utilizing these efficient gifting strategies can go a long way towards reducing your estate tax liability in the future.

If you have any questions regarding this article, please contact Jamie Downey at JMDowney@DowneyCoCPA.com or 800-849-6022.