

A close-up photograph of a hand holding a small, white, square gift box. The box is wrapped with a vibrant red ribbon that is tied in a bow on top. The background is softly blurred, showing another hand and a person's face, suggesting a gift-giving moment.

NAVIGATING 2025 GIFTING AND ESTATE TAXES

UNDERSTANDING THE DOS & DON'TS, LIFETIME EXCLUSIONS AND FORM 709

Familial gifting can be a heartfelt way to express love and generosity, but it's essential to be aware of the potential tax implications that come with it. The Internal Revenue Service (IRS) keeps a watchful eye on large gifts, and understanding the rules and regulations is crucial to ensure a smooth process. In this guide, we'll delve into the intricacies of familial gifting, the IRS Form 709, and the all-important lifetime exclusion amounts.

Familial Gifting

Familial gifting involves giving money or property to family members, often as a way to provide financial support or pass on assets. While the intention is usually altruistic, the IRS has rules in place to prevent individuals from using gifts to avoid estate taxes.

The IRS Form 709

When a gift exceeds a certain value, it triggers the need for filing IRS Form 709, the United States Gift (and Generation-Skipping Transfer) Tax Return. This form provides the IRS with information about the gift, including its value and the identities of both the giver and the recipient.

This form allows you to report gifts made in excess of the annual allowed exclusion (\$19,000 in 2025), and it tells the IRS whether you're paying gift tax now or would like to defer it until the time of your death. Form 709 is filed by the person giving the taxable gifts, who is also responsible for paying any associated gift tax. Form 709 may also be completed to assign gifts to your lifetime exemption.

Lifetime Exclusion Amounts

One crucial concept to grasp is the lifetime exclusion amount, which represents the total value of gifts an individual can give throughout their lifetime without incurring gift taxes. The lifetime exclusion amount as of 2025 is \$13.99 million per person. As an example, you can apply the \$19,000 annual exclusion for 2025 to a gift and only pay tax on the remaining balance, or you can apply your gifts to the lifetime unified credit so you can potentially avoid paying gift tax entirely on the gift you made in 2025.

It is important to remember that this lifetime exclusion is referred to as a "Lifetime Unifies Credit" by the IRS. This means that any gifts you apply to your lifetime exclusion will be added to the value of your net estate when you pass. So as an example, \$600,000 of gifts would be added to your \$11.5 million net estate for a total of \$12.1 million. So long as your total does not exceed the exclusion amount of \$13.99 million for 2025, an estate tax return would not be required. There's one big caveat to be aware of: the \$13.99 million exception is temporary and only applies to tax years up to the end of 2025. Unless Congress makes these changes permanent, after 2025 the exemption will revert to a \$5.49 million exemption (adjusted for inflation). Contact LBDIAS for help in planning how to best take advantage of the current exemption amount.

Annual Exclusion

In addition to the lifetime exclusion amount, there's also an annual exclusion for gifts. The annual exclusion for 2025 is \$19,000 per person (\$38,000 per married couple if the gift is "split"). This means you can gift up to \$19,000 to any individual in a calendar year without triggering gift taxes or the need to file Form 709. The annual gift exclusion is indexed inflation and usually increases by \$1,000 each tax year.

Some Gifts Are Exempt

- Gifts between spouses are generally exempt from gift taxes. This means that you can give unlimited amounts to your spouse without triggering the need to file Form 709. Gifts made to a spouse who isn't a U.S. citizen are taxable, however. The threshold is \$190,000 for tax year 2025. Gifts exceeding this amount are subject to the gift tax.
- You can pay someone's tuition or medical expenses without incurring the gift tax, as long as you pay the institution or the care provider directly.
- Gifts to charities and to political organizations are tax-exempt as well.

Familial gifting is a wonderful way to share wealth and support loved ones. However, it's crucial to navigate the tax landscape carefully. Understanding the IRS Form 709 and keeping track of lifetime exclusion amounts can help ensure a smooth and tax-efficient gifting process. As tax laws can change, consulting with a qualified wealth advisor and tax professional is always a wise decision to stay up-to-date and make informed decisions regarding familial gifting and taxes.

Life By Design Investment Advisory Services is a registered investment adviser. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and, unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein.

Our financial planning process includes investment recommendations and provides tax guidance, but it is not meant to represent formal tax advice. Life By Design Investment Advisory Services ("LBDIAS") is a Registered Investment Advisor offering advisory services in the State of California and in other jurisdictions where exempted.