

IRS ANNOUNCES 2017 ESTATE AND GIFT TAX LIMITS: THE \$11 MILLION TAX BREAK

For 2017, the estate and gift tax exemption is \$5.49 million per individual, up from \$5.45 million in 2016. That means an individual can leave \$5.49 million to heirs and pay no federal estate or gift tax. A married couple will be able to shield just shy of \$11 million (\$10.98 million) from federal estate and gift taxes. The annual gift exclusion remains at \$14,000 for 2017.

The federal estate and gift tax exemptions rise with inflation, and the Internal Revenue Service announced the new numbers here.

The estate tax changes matter to wealthy folks who try to whittle down their estates to keep below the threshold and avoid the 40% federal estate tax.

The federal gift tax is tied to the estate tax, so the inflation indexing helps the wealthy make the most of tax-free lifetime giving too. You can make the gifts during your lifetime; just you have to keep track of them as they count against the eventual estate tax exemption amount. So a woman who set up a trust for her kids with \$5 million a few years ago could make new gifts to add to the trust and bring it up to the \$5.49 million amount.

Don't let the \$11 million number fool you. The rules for couples are tricky. Sure a husband and wife can each get their own exemption, meaning a couple will be able to give away nearly \$11 million tax-free in 2017 (assuming they haven't made prior lifetime gifts), but it's not automatic. An unlimited marital deduction allows you to leave all or part of your assets to your surviving spouse free of federal estate tax. But to use your late spouse's unused exemption – a move called “portability”—you have to elect it on the estate tax return of the first spouse to die, even when no tax is due. The problem is if you don't know what portability is and how to elect it, you could be hit with a surprise federal estate tax bill.

Totally separate from the lifetime gift exemption amount is the annual gift tax exclusion amount. It's \$14,000 for 2017, stuck at that level since 2013. You can give away \$14,000 to as many individuals as you'd like. A husband and wife can each make \$14,000 gifts. So a couple could make \$14,000 gifts to each of their four grandchildren, for a total of \$112,000. The annual exclusion gifts don't count towards the lifetime gift exemption.

When you're making gifts to children and grandchildren, keep in mind that there's a federal kiddie tax that covers students through the age of 23 and puts investment income, above small amounts, into the parents' tax bracket. For 2017, the kid pays no tax on the first \$1,050 of unearned income and then 10% rate on the next \$1,050, the same as in 2016. It pays to make gifts early in the year.

If you want to make gifts and not have to bother to keep track for gift tax purposes, you can make gifts for medical, dental, and tuition expenses for as many relatives (or friends) as you'd like so long as you pay the provider directly. These gifts don't count towards any of the limits.