

Gift and Estate Tax Overview

Estate Planning

Each US person¹ is entitled to transfer via gift or bequest a certain amount of assets free of federal gift or estate tax. This lifetime exemption is \$15 million per individual and \$30 million for married couples in 2026. Each person may also make a gift of up to \$19,000 per year (\$38,000 for a married couple electing to split gifts) per individual in 2026. In addition, one may pay tuition directly to an educational institution and medical expenses directly to the medical provider for any person free of federal gift tax. As well as federal estate and gift taxes, there is a separate federal tax called the Generation-Skipping Transfer (GST) Tax. GST tax may be incurred when a donor makes a transfer to a person who is two or more generations below the donor or to a trust for such person's benefit. Therefore, a gift to a grandchild or a trust for a grandchild may be subject to this additional tax. Estate planning may minimize transfer taxes and allow one to retain some control over gifted property. Which estate planning strategies are employed (and when) depends on one's particular circumstances, priorities, and goals.

Wealth and Estate Planning Strategists
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Notes:
¹ For purposes of this article, US person means a US citizen or person domiciled in the US. For federal transfer tax purposes, a person is domiciled in the US if the person is living in the US with no present definite intention of living elsewhere. Determining whether a person is domiciled in the US is a facts and circumstances test

Gift Tax

Generally, property transfers made by an individual with donative intent prior to death (except those to charity or a U.S. citizen spouse) may be subject to federal gift tax. Excluded from federal gift tax are gifts of a present interest in property of up to \$19,000 per year (as of 2026), per recipient (the “annual exclusion”). Direct payments of certain medical and educational expenses on anyone’s behalf also are excluded from gift tax. In addition to the annual exclusion per donee, each U.S. person has an exemption from the federal gift and estate tax, which may be used during life or at death. Under the One, Big, Beautiful Bill Act enacted in 2025 (the “OBBBA”), the exemption amount is \$15 million per individual in 2026, adjusted for inflation each year beginning in 2027. If a donor makes taxable gifts equal to the available exemption (\$15 million per individual in 2026), the credit is fully used and additional taxable gifts will be subject to the federal gift tax (except to the extent of any increase in the exemption amount). The maximum rate of the federal gift tax for any gifts in excess of the exemption amount is 40%. Only one state, Connecticut, also imposes a state gift tax in addition to the federal gift tax.

Estate Tax

Any amount of an individual’s federal gift tax exemption remaining unused at death may be applied to the assets remaining in the decedent’s estate. In other words, the federal gift and estate taxes are unified in that assets can pass via lifetime gifts and at death under one exemption (\$15 million per individual in 2026). As with the federal gift tax, the maximum federal estate tax rate on any estate in excess of \$15 million is 40%. Certain states also impose an estate tax and/or

inheritance tax in addition to the federal estate tax. The income tax basis of assets included in a decedent’s gross estate will be adjusted to fair market value on the date of the decedent’s death, which is referred to as a “step-up” in basis when the property has appreciated in value.

Generation-Skipping Transfer Tax

The GST tax is an additional layer of tax imposed on transfers to grandchildren or anyone else treated as being two or more generations younger than the transferor. Under the OBBBA, the GST exemption is also \$15 million per individual in 2026, adjusted for inflation each year thereafter. The federal GST tax rate on transfers in excess of the GST exemption is 40%.

Estate Planning Process

Given their importance, the necessities of estate planning (Wills, Revocable Living Trusts, etc.) usually are addressed first. Individuals expecting to have an estate in excess of the federal estate tax exemption amount often consider making gifts because a lifetime gift can remove the asset and its future appreciation from the donor’s taxable estate, potentially minimizing the aggregate federal transfer tax due. There are other techniques that exist, such as the use of a Grantor Retained Annuity Trust and sales to intentionally defective grantor trusts, which could be used to transfer assets in excess of the federal gift and estate tax exemption (or where the donor wants to preserve the exemptions for later use).

Gifts may be outright or in trust. The level of control and creditor protection to be given to the beneficiary may determine the method for gifting.

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