WHAT IS THE ANNUAL GIFT TAX EXCLUSION IN CALIFORNIA?

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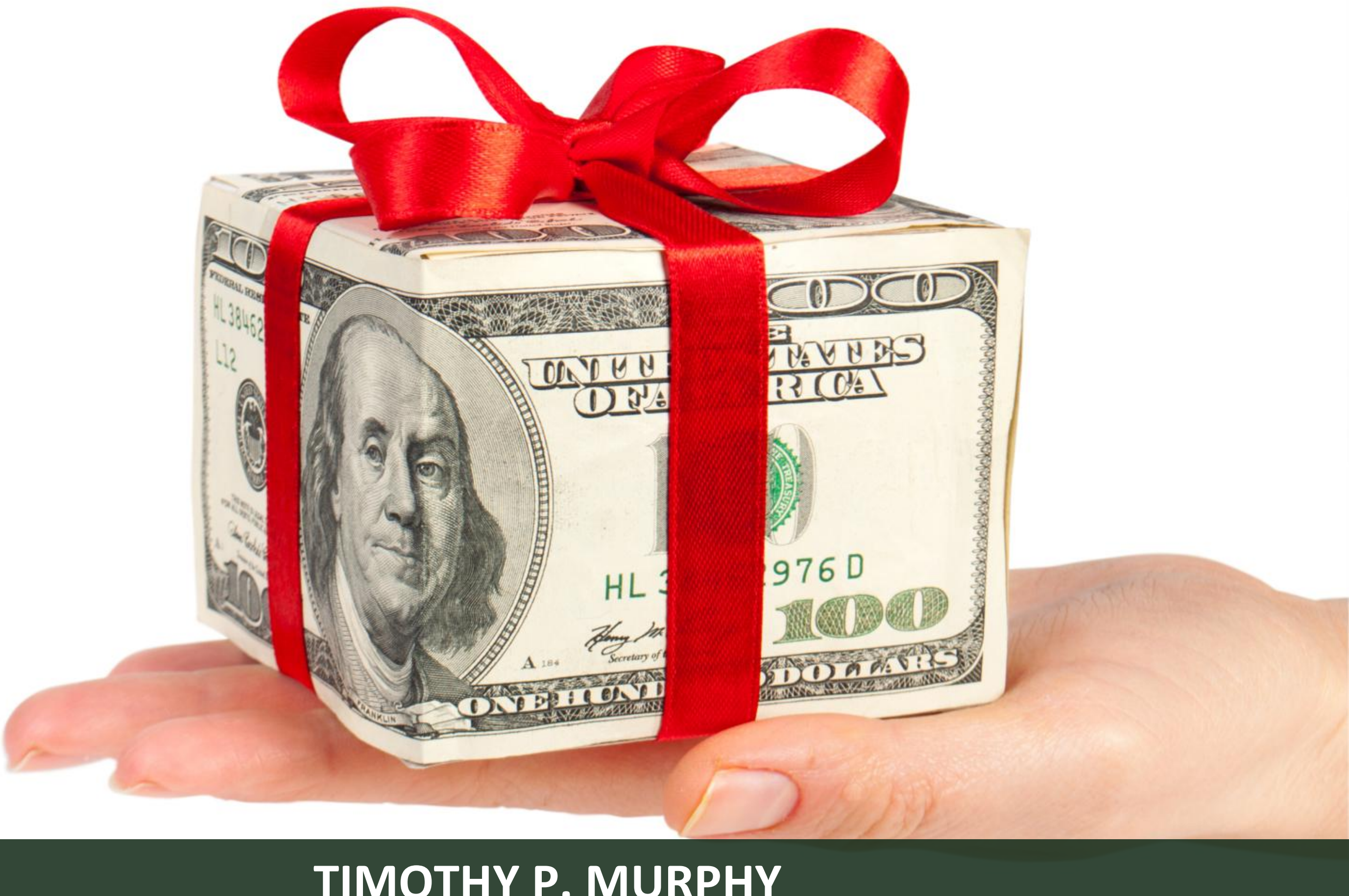

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You have to be aware of federal transfer taxes when you are planning your estate. If you are exposed, there are steps that you can take to reduce the burden.

We have a federal estate tax that can take a significant toll on the wealth that is being passed on to your loved ones. The top rate of the federal estate tax is 40 percent at the present time.

The line in the sand that is drawn between people who must pay the estate tax and those who are exempt exists in the form of the federal estate tax credit or exclusion.

A tax relief act that was passed at the end of 2010 set the estate tax exclusion at $5 million for 2011.

This basic framework remained in place after another tax measure was passed at the end of 2012, but there have been ongoing adjustments to account for inflation. After a series inflation adjustments, the exact amount of the estate tax exclusion in 2014 is $5.34 million.

You can expect that figure to rise slightly on an annual basis as inflation adjustments are applied. In 2015, it will increase to $5.43 million.

Federal Gift Tax

It would be logical to look at the estate tax and have a bright idea: you could just give gifts to your loved ones while you are living to avoid the estate tax. The estate tax was enacted in 1916, and this was possible in the beginning. Wealthy families did give lifetime gifts to their loved ones to preserve their legacies.

Tax minded legislators got wise to this, and they enacted a federal gift tax in 1924. This tax was repealed in 1926, but it came back for good in 1932.

In 1976, the federal gift tax was unified with the estate tax. As a result of this unification, the $5.34 million exclusion that is in place for the rest of 2014 is a unified lifetime exclusion. It applies to large gifts that you give along with the value of your estate.

Unlimited Marital Deduction

To paint a clear picture, we should touch upon the unlimited marital deduction. You don't have to use any of your lifetime unified exclusion to transfer assets to your spouse if you are married to an American citizen.

There is an unlimited marital deduction, and it allows you to transfer unlimited assets to your spouse free of taxation.

The unlimited marital deduction is not afforded to non-citizen spouses, because a surviving spouse could return to his or her country of citizenship, and the estate tax would never be collected.

Annual Gift Tax Exclusion

You can give as much as $14,000 to any number of people within a calendar year free of the gift tax. These tax-free gifts would not reduce the amount of your available unified lifetime exclusion.

There is no limit to the amount that you can transfer, as long as you do not give more than $14,000 to any one person within a calendar year.

Estate Tax Efficiency Strategies

If you are exposed to federal transfer taxes, you could utilize the $14,000 per year, per person gift tax exclusion to gain tax efficiency. You could give $14,000 to family members who are on your inheritance list over an extended period of time. As you are doing this, you are transferring assets tax-free as you simultaneously reduce the overall value of your estate.

You can expect that figure to rise in $1,000 increments on an annual basis as inflation adjustments are applied. In 2015, the exclusion will remain at $14,000.

Summary

There is a federal estate tax, and there is a federal gift tax. These taxes are unified. You can transfer as much as $5.34 million (in 2014) to people other than your spouse tax-free using the lifetime exclusion. Anything that you want to transfer that exceeds this amount is potentially subject to the estate tax or the gift tax.

There is also an annual gift tax exclusion. It currently allows you to give up to $14,000 each year to an unlimited number of gift recipients free of the gift tax.

Conclusion

Federal transfer taxes could take a heavy toll on your financial legacy. There are various different wealth preservation strategies that can be implemented. The utilization of the annual gift tax exclusion can be part of the plan.

To learn more about tax efficiency strategies, schedule a consultation with an experienced and qualified estate planning attorney.

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About the Author

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Timothy P. Murphy is an estate planning and elder law attorney whose practice emphasizes helping people to build, preserve and pass on their wealth. He works with his clients to accomplish their goals while avoiding unnecessary court proceedings and minimizing or eliminating exposure to death taxes. Mr. Murphy also assists families facing the myriad of problems associated with dealing with a loved one's declining health and rising needs for care. He has practiced law in the Sacramento area for 29 years, first with a large firm, and then with his own firm since 1987.

Tim has written a regular column on legal issues for Senior Magazine. He also was a regular featured guest on the Money Experts radio program heard locally on KFBK (AM 1530). Tim has been featured in the Sacramento Bee, Sacramento Business Journal, Sacramento Magazine, Comstock's Magazine and other publications on estate planning and related topics. He also assisted local Channel 3 (KCRA) in an investigative report on the trust mill problem in the Sacramento area and was featured on Channel 10 (KXTV) in its series on personal financial planning.

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