



February 2011

**Ask a trust officer:  
Gift tax exemptions**

DEAR TRUST OFFICER:

I understand that the federal estate tax exemption is now \$5 million. What about gift taxes? —GENEROUS GRANDPARENT

DEAR GENEROUS:

After a long period in which the federal gift and estate tax exemptions were different, they have again been unified. The first \$5 million in lifetime gifts is exempt from the federal gift tax in 2011. Next year an inflation adjustment may be made.

Other gift tax rules were left unchanged. Direct payment of another person's tuition or qualified medical expenses is not a taxable gift, regardless of amount. An annual gift of up to \$13,000 to one person is protected from gift tax by the "annual exclusion." Married couples may "split" their gifts, doubling the value of the exclusion to \$26,000.

Wealthy grandparents may use annual exclusion gifts to move significant sums out of their taxable estates. For example, a couple with four children and six grandchildren may give each of them \$26,000 this year, a total of \$260,000. Over a ten-year period, regular gifting could remove \$2.6 million from their estates without incurring a penny of gift tax.

*Caveat.* Gifted assets do not get a basis step-up, as inherited assets do. Donees may be liable for taxes on capital gains when the gifted assets are sold.

*Do you have a question concerning wealth management or trusts? Send your inquiry to [dave.fisher@bankibt.com](mailto:dave.fisher@bankibt.com).*