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**BEGLEY &
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REVIEW OF GIFT TAX BASICS

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Unlike the federal estate and generation-skipping taxes, gift tax is imposed on transfers made during an individual's lifetime. The gift tax applies to the transfer of property by gift, whether the gift is made to a trust or outright to a donee. The first \$11,000 (called the "annual exclusion amount") of gifts made by a single donor during the calendar year to any donee are not included in the total amount of the donor's taxable gifts during that year. Spouses who consent to split their gifts may transfer a total of \$22,000 per donee each year free of gift taxes. If all gifts made during a calendar year are below the annual exclusion threshold (\$11,000 or \$22,000), respectively, no gift tax return is required to be filed.

In addition to the annual exclusion amount, there is a separate credit provided to each individual for the first \$1 million of otherwise taxable gifts made during his or her lifetime. Therefore, even gifts not covered by the annual exclusion may not result in tax liability. Unlike the gradual increase in the estate tax applicable exclusion amount which is scheduled to occur over the next few years pursuant to the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), the gift tax applicable exclusion amount will remain at \$1 million and will not be indexed for inflation.

When gift tax is due, it is calculated by adding the current year's taxable gifts to all prior year's taxable gifts and then calculating the tentative tax by applying the applicable tax rate to the total amount of taxable gifts. The tentative tax is then reduced by the amount of the unified credit. Taxable gifts are the total of all gifts made by a donor during the calendar year, minus the amount of marital and charitable deductions.

Keep in mind that even if no gift tax is due to be paid for a given calendar year, a Form 709 Annual Gift Tax Return must be filed. The 709 is due at the same time as the Form 1040, the Individual Income Tax Return.



Begley & Bookbinder, P.C. is a law firm that concentrates on Estate & Tax Planning, Elder Law, Estate Administration, Guardianship and Will Contests, Real Estate, as well

as Medicaid Planning. We are based in Moorestown, NJ, with offices in Stone Harbor, Lawrenceville & Philadelphia, PA.

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Our web site contains a library of firm newsletters, articles, on-line forms for Medicaid, Estate Planning and Guardianship, as well as our upcoming speaking engagements, our products, and other relevant information.

If you are interested in having an Elder Law Attorney from Begley & Bookbinder speak at an event, please contact Laura Dickens at (856) 787-4233.

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