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Biz Brain: How the gift tax exemption works

Karin Price Mueller | NJMoneyHelp.com for NJ.com
By Karin Price Mueller | NJMoneyHelp.com for
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Q. Last year, I discounted the selling price of my house by \$65,000 as an early wedding gift to my daughter and her husband. Under IRS gift tax rules, \$14,000 of that to each of them is exempt from my taxes. Can I apply the remaining gifted balance against the federal lifetime gift cap?

-- Mother-in-law

A. Gift tax rules can be confusing.

For 2017, the federal 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 tax or gift tax, said Bernie Kiely, a certified financial planner and certified public accountant with Kiely Capital Management in Morristown. A married couple will be able to shield \$10.98 million from federal estate and gift taxes.

The annual gift exclusion remains at \$14,000 for 2017.

"This means you can give away \$14,000 per year to anyone without touching your \$5.49 million lifetime exclusion. The \$14,000 exclusion is per person, not total, per year, Kiely said.

You sold real estate to your daughter and future son-in-law for a price that is \$65,000 below fair market value.

"In the eyes of the IRS that is a gift," Kiely said. "The first \$14,000 gift to your daughter is protected by the annual exclusion and \$14,000 given to your future son-in-law is also protected by the annual exclusion."

The remaining \$37,000 (\$65,000 - \$28,000) will come out of your lifetime exemption, he said.

You report the \$37,000 gift on form 709 "United States Gift (and Generation Skipping Transfer Tax Return."

Email your questions to Ask@NJMoneyHelp.com.

Karin Price Mueller writes the Bamboozled column for NJ Advance Media and is the founder of NJMoneyHelp.com. Follow NJMoneyHelp on Twitter @NJMoneyHelp. Find NJMoneyHelp on Facebook. Sign up for NJMoneyHelp.com's weekly e-newsletter.



1. Learn the ins and outs of the gift tax exemption.
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