

CNBC

<https://www.cnbc.com/2018/12/03/sitting-on-11-million-give-it-away-to-save-on-estate-taxes.html>

Sitting on \$11 million? Give it away to save on estate taxes

December 3, 2018

[Darla Mercado](#)

Key Points

- Under the new tax law, you can give away just over \$11 million in gifts over your lifetime.
- This higher exemption is going to sunset at the end of 2025, falling back to \$5 million. This raised concerns that the IRS could claw back a portion of your gift starting in 2026.
- IRS and Treasury have proposed rules that will allow those tax-favored transfers to remain.

If the holiday spirit is encouraging you to gift millions of dollars to family members, it's time to start sharing the wealth.

The [Tax Cuts and Jobs Act](#) increased the gift and estate tax exemption — also known as the basic exclusion amount — to \$11.18 million per person in 2018, which is more than double the amount under the old law.

That means any individual can transfer up to \$11.18 million, either as gifts during their lifetime or as bequests after death — and do so without having that money be subject to the 40 percent estate and gift tax.

If you're sitting on that much wealth, consider making those large gifts while you still can. The exemption is set to fall back to about \$5 million per person at the end of 2025.

“The entire estate and gift tax planning world has changed with this rule because the increase in the basic exclusion amount eliminates many estates from having federal estate tax issues,” said Michael D’Addio, a principal at Marcum LLP.

Here's what you should know about making large gifts.

After the tax overhaul became official, accountants were worried that gifts exceeding \$5 million would be [clawed back into the donor's estate](#) and hit with the 40 percent tax if the donor dies after 2025.

However, the IRS and Treasury have offered well-to-do families a holiday gift in the form of a newly [proposed rule](#).

The [regulation](#) will allow individuals who were planning to make large gifts between now and the end of 2025 to do so without fear of having money they've given away pulled back into their estates.

The proposed rule will be in its comment period until Feb. 21, 2019.

“The higher exemption is a boon for people with large estates,” said D’Addio, referring to individuals with estates that are near or over the \$11.18 million exemption.

By making gifts in their lifetime, these people move wealth and its appreciation out of their estate, reducing the amount that’s subject to the estate tax once they die.

Outsized gifts may not make as much sense for families with smaller estates, particularly those that are under \$5 million.

Instead, it might be more advantageous for these individuals to hold onto their assets until death, which would allow beneficiaries to get a “step-up in basis.”

This means that the heir receives the asset valued as of the date of death — this is the step-up in basis. If the beneficiary sells the asset right away, he or she won’t pay any capital gains taxes.

See below for an example of how a “step-up in basis” works when a son inherits a stock from his father, valued at \$40 on the day of death.

“The estate will never be taxable at the federal level, and for that reason you don’t want to miss out on getting the step-up in basis,” said D’Addio.

“You can hold the asset, your beneficiary gets the step-up in basis when you die, and still escape the estate tax,” he said.

Gifted assets don’t receive the benefit of the “step-up in basis.”

Work closely with your estate planning attorney, your CPA and your financial advisor to decide what’s best for you.