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FINANCE

Estate and Gift Taxes 2021-2022: What's New This Year and What You Need to Know

The expanded estate- and gift-tax exemption expires at the end of 2025

The lifetime exemption for both gift and estate taxes was $11.7 million per individual for last year.
PHOTO: TAMMY LIAN

By Laura Saunders and Richard Rubin
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The federal estate- and gift-tax exemption applies to the total of an individual's taxable gifts made during life and assets left at death. Above the exemption, the top rate on such transfers is 40%.

In 2017, Congress doubled the exemption starting in 2018, and the amount will continue to rise with inflation through 2025. This expansion helped reduce the number of taxable

estates to about 1,300 for returns filed in 2020 from about 5,200 in 2017, according to the latest IRS data.

For 2021, the lifetime exemption for both gift and estate taxes was $11.7 million per individual, or $23.4 million per married couple. For 2022, an inflation adjustment has lifted it to $12.06 million per individual, or $24.12 million per couple.

The increase in the exemption is set to lapse after 2025, but in 2019 the Treasury Department and the IRS issued "grandfather" regulations. They allow the increased exemption to apply to earlier gifts if Congress reduces the exemption in the future.



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Here is a simplified example. Say that John gave assets of $11 million to a trust for his heirs in 2020. This transfer was free of gift tax because the exemption was $11.58 million for 2020.

Now, say that in 2022 Congress lowers the exemption to $5 million per person, and John dies in 2023 when that lower exemption is in effect. Under current Treasury rules, John's estate won't owe tax on any portion of his 2020 gift of $11 million, even if $6 million of it is above the $5 million lifetime limit in effect at the time of his death.

Capital gains at death

Under current law, investment assets held at death aren't subject to capital-gains tax. This valuable benefit is known as the "step-up in basis."

For example, say that Robert dies owning shares of stock worth $100 each that he bought for $5, and he held them in a taxable account rather than a tax-favored retirement plan such as an IRA.

Because of the step-up provision, Robert won't owe capital-gains tax on the $95 of growth in each share of stock. Instead, the shares go into his estate at their full market value of $100 each. Heirs who receive the shares then have a cost basis of $100 each as a starting point for measuring taxable gain or loss when they sell.

Annual gift-tax exemption

For 2022, the annual gift-tax exemption has risen to $16,000 per donor, per recipient. In 2021, this limit was $15,000.

Using this tax break, a giver can give someone else—such as a relative, friend or stranger—assets up to the limit each year, free of federal gift taxes. This year, a couple with two married children and six grandchildren could give away a total of $320,000 to these 10 relatives, plus $32,000 to other individuals.

Annual gifts aren't deductible for income-tax purposes, and they aren't income to the recipient.

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How have you navigated estate and gift taxes? Join the conversation below.

Above the annual exclusion, gifts are subtracted from the giver's lifetime gift- and estate-tax exemption. However, a married couple can use a technique called "gift splitting" that allows one spouse to make up to $32,000 of tax-free gifts per recipient on behalf of both partners. In this case, the IRS says a gift-tax return should be filed.

If the gift isn't cash, the giver's "cost basis" carries over to the recipient. For example, say that in 2022 Aunt Margaret gives her niece, Linda, a share of long-held stock worth $1,000 that she acquired years ago for $200. Neither Aunt Margaret nor Linda owes tax on the

gift. But Linda's starting point for measuring taxable gain when she sells will be $200. If she sells the share for $1,200, her taxable gain would be $1,000.

Gifts of any amount to pay tuition or medical expenses are also free of gift tax. To qualify for this break, the giver must make the payment directly to the institution.

Bunching gifts for college

Using another strategy, givers can "bunch" five years of annual $16,000 gifts to a 529 education-savings plan, typically for children or grandchildren. In this case, a gift-tax return should also be filed.

This year's tax deadline for most individuals is April 18. Interested in knowing more before you file your taxes? Register here to read the WSJ Tax Guide 2022.

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