

IRS Announces 2018 Estate and Gift Tax Limits

Article

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While recent news reports focus on the potential for tax change as result of the introduction of the “Tax Cuts and Jobs Act” in the House on November 2, 2017, the IRS continues its job of administering existing law. Under the current rules, several key gift and estate tax exclusions are adjusted for inflation annually, including the estate tax exclusion, the annual gift tax exclusion, and the estate tax deduction for decedents dying with certain farm or closely held business real estate. The IRS has recently announced that the estate and gift tax exclusion will be \$5,600,000 effective January 1, 2018. Due to the unified nature of the estate and gift tax systems, this means a person can make up to \$5.60 million of taxable gifts without paying gift tax or transfer up to \$5.60 million of assets at death without paying estate tax. In 2017, the exclusion amount was \$5.49 million.

In 2018, the annual per donee gift tax exclusion will increase to \$15,000. The annual per donee gift tax exclusion had been at \$14,000 since 2013. That means in each year, any person can give to any other person up to \$15,000 without having any obligation to file a gift tax return or use any of the combined gift and estate tax exclusion referenced above.

Further, if a person dies in 2018 owning certain farm and closely held business real property, the executor of the decedent’s estate may select to value the property at its farm or business use value rather than its fair market value. For 2017, the tax law authorizes a deduction that can reduce the fair market value of the decedent’s qualified property not more than \$1,140,000. The IRS has not yet announced if there will be changes to the standard mileage rates for the use of a car (also vans and pickups), which can be reimbursed by an employer, or if not, deducted on the income tax return. In 2017, the rate was 53.5 cents per mile for business miles driven, which was slightly reduced from the rate of 54 cents per mile for 2016.

If the Tax Cuts and Jobs Act were to pass in its current form, the estate tax exclusion amount would increase to \$10 million effective January 1, 2018. It is not clear if that amount will retroactively incorporate the annual inflation increase that has been in place since 2012. Additionally, the estate tax would be repealed effective January 1, 2024. The taxation of gifts will remain a part of the Tax Code, with the gift tax exclusion amount increasing to \$10 million effective January 1, 2024. This amount would be adjusted for inflation.

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