

# WHAT ARE THE GIFT TAX EXCLUSIONS IN CONNECTICUT?

*“You have to be aware of the existence of transfer taxes when you are engaged in your estate planning efforts. There is a federal estate tax that high net worth individuals must contend with, and this tax can take a significant bite out of your legacy, because it carries a 40 percent maximum rate.”*



**BARRY D. HOROWITZ**  
Connecticut Estate Planning Attorney



The estate tax is not applicable on asset transfers between spouses, as long as the people in question are American citizens. Transfers to others are potentially taxable.

It would be logical to consider lifetime gift giving as a way to avoid the estate tax. When the estate tax was initially enacted in 1916, this was possible, because there was no gift tax. In 1924, a gift tax was enacted to close the loophole.

This tax was repealed in 1926, but it was reenacted in 1932, and we have had a gift tax since that time. During the 1970s, the gift tax was unified with the estate tax. Since the two transfer taxes are unified, the top rate of the gift tax is also 40 percent.

## Annual Per Person Exclusion

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Every gift that you give is not subject to the gift tax, because there are some exclusions that can be utilized to give gifts tax-free. One of them is the annual per person exclusion.



You can give up to \$14,000 to any number of people within a calendar year tax-free using this exclusion. There is no limit to the total amount that you can give free of taxation, as long as you do not give more than \$14,000 to any one person.

This exclusion is afforded to each taxpayer, so if you are married, you and your spouse could combine your respective exclusions and give up to \$28,000 in tax-free gifts to an unlimited number of recipients each year.

## Educational Exclusion

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You may want to provide educational opportunities for younger family members. If you pay school tuition for students, you can do so without incurring any gift tax liability. However, this is a tuition only exclusion. You cannot use this exclusion to pay for living expenses, books, fees etc.



When it comes to these additional expenses, you could provide support through the utilization of your \$14,000 per year, per person annual exclusion.

We should point out the fact that you have to pay the institution directly if

you are going to use the educational exclusion.

## Medical Gift Tax Exclusion

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In addition to the educational exclusion, there is also a medical gift tax exclusion. Under the tax code, you are allowed to pay medical bills for others without incurring any gift tax exposure. This would include the purchase of health insurance that benefits other people.

# Unified Lifetime Gift and Estate Tax Exclusion

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The final exclusion that we will look at here is the unified lifetime gift and estate tax exclusion. The amount of this exclusion is \$5.43 million in 2015. Every year there can be inflation adjustments, and there have been adjustments each year since a \$5 million exclusion was put in place for the 2011 calendar year.

If you want to give tax-free gifts to individuals that exceed \$14,000 per person during a single calendar year,



you could use a portion of your unified gift and estate tax exclusion to do so. However, you would be reducing the amount of the exclusion that would be left to apply to your estate and any future gifts that you may give while you are living.

The point is, you have options when it comes to asset transfers. You should certainly discuss them with a licensed estate planning attorney before you make any decisions.

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## ***SUMMARY***

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There is a federal gift tax in place that is unified with the estate tax, but there are exclusions that can be used to give tax-free gifts. You can give up to \$14,000 each calendar year to an unlimited number of people tax-free, and you can also pay for school tuition and medical expenses free of the gift tax.

In addition to these exclusions, there is a \$5.43 million exclusion that can be applied to your estate and any large gifts that you may give to individuals within a calendar year that exceed \$14,000 in value.

We have provided some basic information about federal transfer taxes in this paper. If you would like to obtain more detailed information, schedule a consultation with a licensed estate planning attorney.

## ***REFERENCES***

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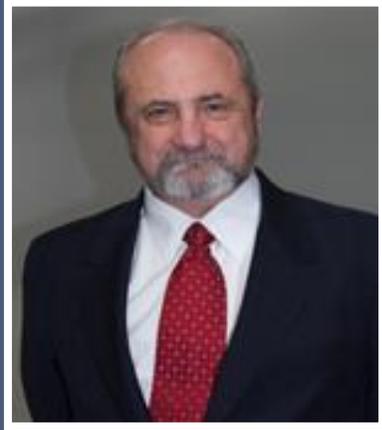
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## About the Author

### Barry D. Horowitz



Barry D. Horowitz is a founding partner in the law firm of Nirenstein, Horowitz & Associates, P.C. He received his diploma from the Loomis Chaffee School and his Bachelor of Arts from Bennington College, where he dual majored in philosophy and music.

Mr. Horowitz was awarded his Juris Doctor degree with honors from the University of Connecticut School of Law. While attending law school, Mr. Horowitz received the American Jurisprudence Award in Legal Ethics and the Nathan Burkan Award.

After graduation from law school, Mr. Horowitz continued his legal education at New York University School of Law where he received a Post Doctorate Law Degree in Taxation. He has also recently received a national achievement award.

Mr. Horowitz is admitted to practice before all the state courts in the State of Connecticut and the United States District Court. He is a member of the Hartford County Bar Association, a charter member of the American Academy of Estate Planning Attorneys, and has recently received the American Academy Award. Mr. Horowitz is also an active member of the Connecticut Bar Association where he is a member of the Elder Law Section, the Estate Planning and Probate Section, and the Professional Ethics Committee. Mr. Horowitz practices exclusively in the area of Estate Planning where he has earned a reputation as a dynamic and entertaining speaker. He also has recently published a book entitled "Guiding Those Left Behind in Connecticut."

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