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Updated Inflation Adjustments for Gift Tax Annual Exclusion, Unified Credit Amount, and GST Tax Exemption for 2025

There are numerous tax exclusions and exemptions that frequently impact our clients. Each year the Internal Revenue Service (IRS) evaluates and often adjusts these exclusions and exemptions to account for inflation. This article briefly summarizes (1) the most common exemptions and exclusions, (2) the IRS adjustments to such exemptions and exclusions, and (3) what the 2025 adjustments mean for you.

The Annual Exclusion

The annual federal gift tax exclusion – commonly referred to as the "annual exclusion" – is the amount that a taxpayer may gift to another individual without incurring gift tax or using up the taxpayer's lifetime gift and estate tax exemption (which is $13,990,000 in 2025). The 2025 annual exclusion amount will be $19,000 (up from $18,000 in 2024). The annual exclusion applies to gifts of $19,000 to each donee or recipient per calendar year. This means that a parent may gift up to $19,000 per child (or any other donee) without being required to report the gifts on a gift tax return (Form 709) and without using up any of their unified credit. Additionally, since each individual may take advantage of this exclusion, a married couple may gift up to $38,000 to each donee per calendar year without using any estate or gift tax exemption.

There are four types of gifts not subject to gift tax: gifts to political organizations; gifts to certain exempt or charitable organizations; gifts that qualify for educational exclusion (such as tuition payments); and gifts that qualify for medical exclusions.

The Unified Credit

The unified credit is also known as the lifetime estate and gift tax exemption, applicable exclusion amount, or basic exclusion amount. The unified credit is a combination of the gift tax exemption and estate tax exemption amount and is the amount that an individual may give either during their lifetime or at death before any gift or estate taxes will be assessed against the individual (or their estate). The unified credit in 2025 will be $13,990,000 (up from $13,610,000 in 2024). The unified credit may be shared between spouses. When used correctly, a married couple may transfer up to a combined $27,980,000 without incurring gift or estate tax. This allows a wealthy married couple to gift an additional $760,000 in 2025 compared to 2024 without incurring additional tax liability.

The Generation Skipping Transfer Tax (GSTT) Exemption

The GSTT exemption is the amount which may be left to a skip generation without incurring GSTT. For tax purposes, a "skip generation" is a generation two or more generations younger than the transferor. Like the unified credit, in 2025 the GSTT exemption will be increased to $13,990,000. While seemingly similar to the unified credit, it is important to note that the GST tax exemption is not "portable" or shareable with your spouse. Therefore, it is important to use any GST tax exemption during life or at death.

Please note that the current exemptions originated with the Tax Cuts and Jobs Act of 2017 and are currently scheduled to expire at the end of 2025. On January 1, 2026, the higher exemption amounts will revert back to the $5 million exemption allowed in 2017, adjusted for inflation, unless Congress decides to act before then.

This blog was drafted by Spencer Fane attorneys Maureen Cook, Joshua Decker, Serena O'Neil, Jackie Pringle, Charli Steed, and Samuel Thomas.

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