Gift Taxes: The Basics - Transcript

Tom Mullooly: In episode 116, we want to cover making gifts and gift taxes.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode number 116. Thanks for tuning in.

So today, we want to talk about gifts, making gifts and gift taxes. Currently in 2018, everyone can gift another person up to $15000 per person per year. That's a gift of $15000, again, per person per year. So, suppose you and your spouse have three children and they are all married. That's six potential people you could give gifts to. You can give $15000 in this year to your three children, plus give $15000 to each of their spouses. That's six gifts of $15000. That's 90 grand you can do this year, and you can do it again next year and the year after that too, and your spouse can do the very same thing. That's $180000 in this example that someone can gift or a couple can gift. Again, the gifts are per person per year.

That's a pretty good way to transfer money out of your name and over to the next generation. There's no catch. You want to make sure that when you're giving a gift to someone, that you actually give them cash. Just write a check instead of gifting stock or gifting securities. The reason for that is that when you gift securities or an investment like real estate or whatever to another person, that person is going to retain the cost basis that you have.

So if you bought Home Depot 25 years ago and then you gift shares of stock to someone, then that person is going to have the same cost basis from 25 years ago. They're opening themselves up for a lot of capital gains, a lot of taxes that they wouldn't necessarily have to pay.

So, I want to spend a little time now talking about gift taxes and gift tax returns because we get probably more questions at the end of the year each year about this topic than anything else. If you give a gift to someone, if you give someone other than your spouse or a charity, if you give someone more than $15000 in the current year, you must file what's called a gift tax return. It's form 709.

Now, the gift tax return is really an informational return. There's no taxes going to be due at the time of the gift, and it's important to remember that the giver of the gift actually files the gift tax return, not the receiver, not the recipient. The recipient because they're getting a gift doesn't have to show taxable income. The only time that the recipient would have to show some kind of income or actually capital gain would be if they were given a gift of stock and then they sold the stock and it has the original cost basis that the giver had.

Now, you can make unlimited gifts to your spouse, between spouses. There's never a problem with that. If you give a gift to a charity, there's no gift tax return.

In fact, Tim, we should probably do another video on making gifts to charitable organizations, because if you've got highly appreciated stock, that's a great way to get the capital gain out from under your name.

So, that's going to wrap up episode 116. We are definitely going to have more on this in the upcoming episodes. Thanks for watching.