



2019 Estate & Gift Tax Inflation Adjustments

Several important federal gift and estate tax exemptions are adjusted periodically to reflect the rate of inflation. The IRS has announced the following adjustments for 2019:

- **Basic Exclusion** – For 2019, the basic exclusion amount is \$11.4 million. The basic exclusion represents the amount that can be transferred during lifetime free of gift tax or at death free of estate tax. This represents the base exclusion of \$10 million plus an inflation adjustment of \$1.4 million.
- **Generation-Skipping Transfer Tax Exemption** – The amount that may be transferred during lifetime or at death to a grandchild or other “skip person” free of the GST tax has also increased to \$11.4 million.
- **Exclusion for Lifetime Gifts to Non-Citizen Spouse** – Lifetime gifts to a spouse who is a U.S. citizen are not subject to gift tax regardless of the amount. Lifetime gifts to a spouse who is not a U.S. citizen are subject to gift tax to the extent the gifts exceed the authorized exclusion in any year. For 2019, this exclusion is \$155,000.
- **Annual Gift Tax Exclusion** – The annual exclusion amount for gifts of present interests is unchanged at \$15,000.

The marginal estate, gift and GST tax rates remain at 40%.

It is important to note that the Basic Exclusion and the GST Tax Exemption are scheduled to revert (or “sunset”) on January 1, 2026 to \$5,000,000 plus an inflation adjustment.

For a wealthy taxpayer who wishes to make a large lifetime gift to take advantage of the increased exemptions before they sunset, there has been discussion about whether the portion of the gift that exceeds in value the post-sunset exemptions would be pulled back into the taxpayer’s estate at death – this is known as “clawback.” In November 2018, the Treasury issued proposed regulations to confirm that, with respect to the Basic Exclusion Amount, clawback will not be a concern and the estate of a taxpayer who utilizes the increased exemption will not be adversely affected. These regulations do not address the GST Tax Exemption, but we expect that a similar approach will be applied to GST taxable gifts and hope that the Treasury will issue similar regulations.