Affluent Individuals

Charitable Contributions: Frequently Asked Questions

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How can I spot a charity scam?

These are some common-sense suggestions for avoiding rip-offs:

- **Try to avoid making a cash contribution.** If possible make your donation using a check or money order made out to the charity-never to the individual soliciting the donation. If you do pay cash always get a receipt. Cash donations are not tax deductible without a receipt.
- **Ask for written descriptions** of the charity's programs and/or finances.
- **Don't allow yourself to be pressured to donate immediately.** Wait until you are sure that the charity is legitimate and deserving of a donation.
  Don't forget to keep receipts, canceled checks and bank statements so you will have records of your charitable giving at tax time.

- **Don't be misled by a charity** that resembles or mimics the name of a well-known organization--all charities should be checked out.

Before giving, check on all charities with the local charity registration office (usually a division of the state attorney's general office) and with the Better Business Bureau (BBB).

What should I watch out for with mail solicitations?

Many charities use direct mail to raise funds. While the overwhelming majority of these appeals are accurate and truthful, be aware of the following:

- The mailing piece should clearly identify the charity and describe its programs in specifics. If a fund-raising appeal brings tears to your eyes but tells you nothing about the charity's functions, check it out carefully before responding.
- Beware of fund-raising appeals that are disguised as bills or invoices. It is illegal to mail a bill, invoice or statement of account that is, in fact, an appeal for funds unless it has a clear and noticeable disclaimer stating that it is an appeal and that you are under no obligation to pay unless you accept the offer.
  Deceptive-invoice appeals are most often aimed at businesses, not individuals. If you receive one of these, contact your local Better Business Bureau.
- It is against the law to demand payment for unsolicited merchandise-e.g., address labels, stamps, bumper stickers, greeting cards, calendars, and pens. If such items are sent to you with an appeal letter, you are under no obligation to pay for or return them.
- Appeals that include sweepstakes promotions should disclose that you do not have to contribute to be eligible for the prizes offered. To require a contribution would make the sweepstakes illegal as a lottery operated by mail.
- Appeals that include surveys should not imply that you are obligated to return the survey.

What should I watch out for with door-to-door solicitations?

When you are approached for a contribution of time or money, ask questions -- and don't give until you're satisfied with the answers. Charities with nothing to hide will encourage your interest. Be wary of any reluctance to answer reasonable questions.

- **Ask for the charity's full name and address.** Demand identification from the solicitor.
- **Ask if the contribution is tax-deductible.** Contributions to tax-exempt organizations are not always tax-deductible.
- **Ask if the charity is licensed by state and local authorities.** Registration or licensing is required by most states and some local governments. Registration, by itself, does not mean that the state or local government endorses the charity.
- **Don't give in to pressure to make an immediate donation** or allow a "runner" to pick up a contribution.
- **Statements such as "all proceeds will go to charity"** may mean money left after expense-- such as the cost of fund-raising efforts-- will go to the charity. These expenses can be big ones, so check carefully.
- **When asked to buy candy, magazines, or tickets to benefit a charity, be sure to ask what the charity's share will be.** Sometimes the organization will receive less than 20 percent of the amount you pay.

If a fundraiser uses pressure tactics-- intimidation, threats, or repeated and harassing calls or visits-call your local Better Business Bureau to report the actions.

How can I maximize my tax benefit from charitable contributions?

Many donors are not aware that their contributions may not be deductible, or that deductions may be limited. Here are the general rules:

When an organization claims to be tax-exempt, it does not necessarily mean contributions are deductible. "Tax-exempt" means that the organization does not have to pay federal income taxes, while "tax-deductible" means the donor can deduct contributions to the organization. The Internal Revenue Code defines more than 20 different categories of tax-exempt organizations, but only a few of these are eligible to receive contributions deductible as charitable donations.

> When in doubt, call us or the IRS (800-829-1040) about the deductibility of a contribution.

If you go to a charity affair or buy something to benefit a charity (e.g., a magazine subscription or show tickets), you cannot deduct the full amount you pay. Only the part above the fair market value of the item you purchase is fully deductible.

> You pay $50 for a charity luncheon worth $30. Only $20 can be deducted.

Donations made directly to needy individuals are not deductible. Contributions must be made to qualified organizations to be tax-deductible.

Contributions are deductible for the year in which they are actually paid or delivered. Pledges are not deductible they are paid.

Regardless of the amount, to deduct a contribution of cash, check, or other monetary gift, you must maintain a bank record, payroll deduction records or a written communication from the organization containing the name of the organization, the date of the contribution and amount of the contribution.

For text message donations, a telephone bill will meet the record-keeping requirement if it shows the name of the receiving organization, the date of the contribution, and the amount given.

To claim a deduction for contributions of cash or property equaling $250 or more you must have a bank record, payroll deduction records or a written acknowledgment from the qualified organization showing the amount of the cash and a description of any property contributed, and whether the organization provided any goods or services in exchange for the gift. One document may satisfy both the written communication requirement for monetary gifts and the written acknowledgment requirement for all contributions of $250 or more.

What are the most tax-effective ways of donating?

There are many ways to give money to charity. In fact, much of many charities' revenues come from the "planned or deferred giving" techniques. A planned or deferred gift is a present commitment to make a gift in the future, either during your life or via your will. Aside from assuring your favorite charities of a contribution, planned or deferred giving brings with it tax benefits.

Charitable gifts by will reduce the amount of your estate that is subject to estate tax. Lifetime gifts have the same estate tax effect (by removing the assets from your estate), but might also offer a current income tax deduction.

If you have property that has significantly appreciated in value but does not bring in current income, you may be able to use one of these techniques to convert it into an income-producing asset. Further, you will be able to avoid or defer the capital gains tax that would be due on its sale -- all the while helping a charity.

Many variables affect the type of planned or deferred giving arrangement you choose, such as the amount of your income, the size of your estate and the type of asset transferred (e.g., cash, investments, real estate, retirement plan) and its appreciated value. Not all charities have the resources to be able to offer more sophisticated arrangements.

> These gifts are complex, so be sure to consult with both the charity and your financial advisor to determine how to best structure your deferred gift.

Here are some examples of planned and deferred charitable gifts:

Life Insurance

You name a charity as a beneficiary of a life insurance policy. With some limitations, both the contribution of the policy itself and the continued payment of premiums may be income-tax deductible.

Charitable Remainder Annuity

You transfer assets to a trust that pays a set amount each year to non-charitable beneficiaries (for example, to yourself or to your children) for a fixed term or for the life or lives of the beneficiaries, after which time the remaining assets are distributed to one or more charitable organizations. You get an immediate income tax deduction for the value of the remainder interest that goes to the charity on the trust's termination -- even though you keep a life-income interest. In effect, you or your beneficiaries get current income for a specified period, and the remainder goes to the charity.

Charitable Remainder Unitrust

This is the same as the charitable remainder annuity trust, except the trust pays the actual income or a set percentage of the current value (rather than a set amount) of the trust's assets each year to the non-charitable beneficiaries. Here, too, you or your beneficiaries get current income for a specified period, and the remainder goes to the charity.

Charitable Lead Annuity Trust

You transfer assets to a trust that pays a set amount each year to charitable organizations for a fixed term or for the life of a named individual. At the termination of the trust, the remaining assets will be distributed to one or more non-charitable beneficiaries (for example, you or your children).

You get a deduction for the value of the annual payments to the charity. You may still be liable for tax on the income earned by the trust. You keep the ability to pass on most of your assets to your heirs. Unlike the two trusts above, the charity gets the current income for a specified period, and your heirs get the remainder.

Charitable Lead Unitrust

This is the same as the lead annuity trust, except the trust pays the actual income or a set percentage of the current value (rather than a set amount) of the trust's assets each year to the charities.

Here, too, the charity gets the current income for a specified period, and your heirs get the remainder.

Charitable Gift Annuity

You and a charity have a contract in which you make a present gift to the charity, and the charity pays a fixed amount each year for life to you or any other specified person.

Pooled Income Fund

You put funds into a pool that operates like a mutual fund but is controlled by a charity. You, or a designated beneficiary, get a share of the actual net income generated by the entire fund for life, after which your share of the assets is removed from the pooled fund and distributed to the charity.

You get an immediate income tax deduction when you contribute the funds to the pool. The deduction is based on the value of the remainder interest.

Should I make a planned or deferred gift?

When determining whether to make a planned or deferred gift to a charity, ask whether you are ready to make a commitment to invest in a charitable organization; despite the tax benefits, you will still be "out-of-pocket" after the deduction.

Some questions you should consider are:

- Is the charity viable, reputable, creditable, and reliable?
- Do you wish to support its programs?
- Does the gift fit into your estate and family plan?

Is it wise to give my time to charity?

Volunteering your time can be personally rewarding, but it is important to consider the following factors before committing yourself.

First, make sure you are familiar with the charity's activities. Ask for written information about the charity's programs and finances.

Be aware that volunteer work may require special training devotion of a scheduled number of hours each week to the charity.

If you are considering assisting with door-to-door fund-raising, be sure to find out whether the charity has financial checks and balances in place to help ensure control over collected funds.

> Although the value of your time as a volunteer is not deductible, out-of-pocket expenses (including transportation costs) are generally deductible.

How do charity thrift stores work?

There are three major types of thrift store operations:

- **Conduit-type shops are run by volunteer church and civic groups.** These thrift stores generally distribute most of their proceeds to various charitable organizations, often community-based.
- **The second category of thrift operations is represented by service organizations such as The Salvation Army and Goodwill Industries.** Here, the

thrift stores are operated as part of their program activities through the goal of "rehabilitation through employment."

- **The third category involves charities that collect and sell used merchandise to raise funds for their own use.** This arrangement is popular for a number of veterans organizations and other charities. Such arrangements generally work one of two ways: (1) the charity owns and operates the store, or, (2) more commonly, variously charities solicit and collect used items, which are then sold to independently managed store(s) for an agreed-upon amount.

The "fair market value" of goods donated to a thrift store is deductible as a charitable donation, as long as the store is operated by a charity. To determine the fair market value, visit a thrift store and check the "going rate" for comparable items. If you are donating directly to a "for-profit" thrift store or if your merchandise is sold on a consignment basis whereby you get a percentage of the sale, the thrift contribution is not deductible.

Remember to ask for a receipt that is properly authorized by the charity. It is up to the donor to set a value on the donated item.

If you plan to donate a large or unusual item, check with the charity first to determine if it is acceptable.

If you are approached to donate goods for thrift purposes, ask how the charity will benefit financially. If the goods will be sold by the charity to a third party, an independently managed thrift store, ask what the charity's share will be.

Sometimes the charity receives a small percentage, e.g., 5 to 20 percent of the gross, or a flat fee per bag of goods collected.

How are tickets to charitable events treated?

Dinners, luncheons, galas, tournaments, circuses, and other events are often put on by charities to raise funds. Here are some points to consider before deciding to participate in such events.

- Check out the charity. The fact that you are receiving a meal or theater tickets should not justify less scrutiny.
- Remember, your purchase of tickets to such events is generally not fully deductible. Only the portion of your gift above the "fair market value" of the benefit received (i.e., the meal, show, etc.) is deductible as a charitable donation. This rule holds true even if you decide to give your tickets away for someone else to use.
  If you decide not to use the tickets, give them back to the charity. In order to be able to deduct the full amount paid, you must either refuse to accept the tickets or return them to the charitable organization. In this way, you will not have received value for your payment.
  Make donations by check or money order out to the full name of the charity and not to the sponsoring show company or to an individual who may be collecting donations in person.
- Watch out for statements such as "all proceeds will go to the charity." This can mean the amount after expenses have been taken out, such as the cost of the production, the fees for the fund-raising company hired to conduct the event, and other related expenses. These expenses can make a big difference and sometimes result in the charity receiving 20 percent or less of the price paid.
  Ask the charity what anticipated portion of the purchase price will benefit the organization.
- Solicitors for some fund-raising events such as circuses, variety shows, and ice skating shows may suggest that if you are not interested in attending the event, you can purchase tickets that will be given to handicapped or underprivileged children. If such statements are made, ask the solicitor how many children will attend the event, how they will be chosen, how many tickets have been already distributed to these children, and if transportation to the event will be provided for them.

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- What should I look out for in my charitable giving?
- Is federal gift or estate tax due on my charitable gift?
- Some charities talk about planned or deferred giving. What is that?

How can I find out if contributions to a particular charity are tax-deductible?

To obtain tax-exempt status under Section 501(c)(3) of the Internal Revenue Code, an organization has to file certain documents with the IRS that prove it is organized and operated for specified charitable purposes.

Organizations with 501(c)(3) status are those that the IRS considers charitable, educational, religious, scientific or literary, those that prevent cruelty to animals, and those that foster national or international sports competition.

When the IRS rules positively on an application, the organization is eligible to receive contributions deductible as charitable donations for federal income tax purposes. The charity receives a "Determination Letter" formally notifying it of its charitable status. Older charities may have a "101(6) ruling," which corresponds to Section 501(c)(3) of the current IRC. Churches and small charities with less than $5,000 of annual gross receipts (subject to the *Gross Receipts test*) do not have to apply to the IRS for exemption.

> You can search the IRS database for a list of tax-exempt organization eligible to receive deductible contributions.

What information can I obtain from the IRS about a charity?

You can obtain three documents on a specific charity by sending a written request to the attention of the Disclosure Officer at your nearest IRS District Office. The IRS will charge a per-page copying fee for these items. To speed your request, have the full, official name of the charity, as well as the city and state location.

These three publicly available documents are:

- **Form 1023** - the application filed by the charity to obtain tax-exempt status.
- **IRS Letter of Determination** - the two-page IRS letter that notifies the organization of its tax-exempt status.
- **Form 990** - the financial/income tax form filed with the IRS annually by the charity. Charities with a gross income of less than $25,000 and churches are not required to file this form. Among other things, Form 990 includes information on the charity's income, expenses, assets, liabilities and net assets in the past fiscal year. Form 990 also identifies the salaries of the charity's five highest-paid employees. When contacting the IRS for copies, specify the fiscal year.

  If your request for information involves only Form 990, you can get a faster response by writing directly to the IRS Service Center where the charity files its return. Contact your nearest IRS office for the address of the appropriate Service Center.

The charity registration office in your state (usually a division of the state attorney general's office) may also have a copy of the charity's latest Form 990, along with other publicly available information on charities soliciting in your state.

A charity's application for tax-exempt status and its annual Form 990 must be made available for public inspection during regular business hours at the principal office of the charity and at each of its regional or district offices containing three or more employees. The charity is not required to provide photocopies of the return but must have a copy on hand for public inspection.

What types of deductible contributions can be made to charity?

Generally, you can donate money or property to charity. A deduction is usually available for the fair market value of the money or property. However, for certain property the deduction is limited to your cost basis; inventory (some exceptions), certain creative works, stocks held short term and certain business-use property. You can also donate your services to charity, however, you may not deduct the value of your services. You can deduct your travel expenses and some out of pocket expenses.

What types of organizations generally qualify for a charitable deduction?

The following types of organizations generally qualify for a deduction. Before making a donation, make sure to verify the organization's status. You can do this by asking for evidence in writing or contacting the Internal Revenue Service.

- Churches, synagogues, temples, mosques, and other religious organizations.
- Federal, state and local governments if the proceeds are used for public purposes.
- Nonprofit schools, hospitals and volunteer fire companies.
- Public parks and recreation facilities.
- Salvation Army, United Way, Red Cross, Goodwill, Boy Scouts and Girl Scouts.
- War veterans' groups.

What types of organizations generally do not qualify for a charitable deduction?

The following types of organizations generally do not qualify for a charitable deduction:

- Social and sports clubs.

- For-profit organizations.
- Lottery, bingo or raffle tickets.
- Dues to social or recreational clubs.
- Homeowners' associations.
- Individuals.
- Political organizations.

What is the limit on the deductibility of charitable contributions?

The amount of your deduction for charitable contributions is limited to 50 percent of your adjusted gross income and may be limited to 20 or 30 percent of your adjusted gross income, depending on the type of property you give and the type of organization you give it to. Before you make a donation, verify with your tax advisor which limit applies.

Can I deduct contributions to tax-exempt organizations?

Not necessarily. Tax-exempt means that the organization does not have to pay federal income taxes while tax-deductible means the donor can deduct contributions to the organization. There are more than 20 different categories of tax-exempt organizations, but only a few of these offer tax-deductibility for donations.

What should I look out for in my charitable giving?

Not everything the charity gets from you qualifies for deduction:

- If you go to a charity affair or buy something to benefit a charity (e.g., a magazine subscription or show tickets), you cannot deduct the full amount you pay. Only the part above the fair market value of the item you purchase is fully deductible. For example, if you pay $500 for a charity luncheon worth $200, only $300 can be deducted.

- Since contributions are deductible only for the year in which they are actually paid or delivered, pledges are not deductible until they are paid.
- No cash or non-cash donation is deductible unless the taxpayer has a receipt from the charity substantiating the donation.
- Since contributions must be made to qualified organizations to be tax-deductible, donations made to needy individuals are not deductible.

Is federal gift or estate tax due on my charitable gift?

Charitable gifts made pursuant to your will reduce the amount of your estate that is subject to estate tax. Lifetime gifts have the same estate tax effect (by removing the assets from your estate), along with the current income tax deduction.

Some charities talk about planned or deferred giving. What is that?

Usually they are ways whereby both you (or your family) and charity enjoy your property or its income. The most popular are:

Life Insurance

You name a charity as a beneficiary of a life insurance policy. With some limitations, both the contribution of the policy itself and the continued payment of premiums may be income-tax deductible.

Charitable Remainder Trust

You transfer assets to a trust that pays an amount each year to non-charitable beneficiaries (for example, to yourself or your children) for a fixed term or for the life or lives of the beneficiaries, after which time the remaining assets are distributed to one or more charitable organizations. You get an immediate income tax deduction for the value of the remainder interest that goes to the charity on the trust's termination, even though you keep a life-income interest. In effect, you or your beneficiaries get current income for a specified period and the remainder goes to the charity.

Charitable Lead Trust

You transfer assets to a trust that pays an amount each year to charitable organizations for a fixed term or for the life of a named individual. At the termination of the trust, the remaining assets will be distributed to one or more non-charitable beneficiaries (for example, you or your children).

You get a deduction for the value of the annual payments to the charity. You keep the ability to pass on most of your assets to your heirs. Unlike the charitable remainder trusts above, the charity gets the current income for a specified period and your heirs get the remainder.

Charitable Gift Annuity

You and a charity have a contract in which you make a present gift to the charity and the charity pays a fixed amount each year for life to you or any other specified person. Your charitable deduction is the value of your gift minus the present value of your annuity.

Pooled Income Fund

You put funds into a pool that operates like a mutual fund but is controlled by a charity. You, or a designated beneficiary, get a share of the actual net income generated by the entire fund for life, after which your share of the assets is removed from the pooled fund and distributed to the charity. You get an immediate income tax deduction when you contribute the funds to the pool. The deduction is based on the value of the remainder interest.

Living Trusts: Frequently Asked Questions

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What is a living trust?

A living trust is an entity that exists only on paper (similar to a corporation) but is legally capable of owning property. However, a live person called the trustee must be in charge of the property. Further, you can actually be the trustee of your own living trust, keeping full control over all property legally owned by the trust.

There are many kinds of trusts. A living trust (also called revocable trust, revocable living trust or inter vivos trust) is simply a trust you create while you're alive, rather than one that is created upon your death under the terms of your will.

Property held in trust that is actually "owned" by the trustees of the trust, subject to the rights of the beneficiaries. The trust itself doesn't actually own anything. All living trusts are designed to avoid probate. Some also help you save on estate taxes while others let you set up long-term property management.

What is probate?

Probate is the legal process of paying the deceased's debts and distributing the estate to the rightful heirs. This process usually entails:

- The appointment of an individual by the court to act as executor of the estate. Executors are sometimes referred to as "personal representatives." Most people name an executor as part of their will. If there is no will, the court appoints an executor, most often a spouse if the deceased is married.
- Proving that the will is valid.
- Informing creditors, heirs, and beneficiaries that the will is probated.
- Disposing of the estate by the executor in accordance with the will or state law.

The executor named in the will must file a petition with the court after the death. There is a fee for the probate process. Depending on the size and complexity of the probable assets, probating a will may require legal assistance.

Assets that are jointly owned by the deceased and someone else are not subject to probate. Proceeds from a life insurance policy or Individual Retirement Account (IRA) that are paid directly to a beneficiary are also not subject to probate.

Do I need a living trust?

A living trust is a useful estate and tax planning document that keeps your estate out of probate court. While some people may not need one there are several reasons why it makes sense such as having a beneficiary who is disabled, owning property in another state or making it easier for your heirs to administer your estate after death.

How does a living trust avoid probate?

Property you transfer into a living trust before your death doesn't go through probate. The successor trustee - the person you appointed to handle the trust after your death - simply transfers ownership to the beneficiaries you named in the trust. In many cases, the whole process takes only a few weeks and there are no lawyer or court fees to pay. When the property has all been transferred to the beneficiaries, the living trust ceases to exist.

Is it expensive to create a living trust?

The cost of creating a living trust depends on what you want to achieve. The more complicated a living trust is, the more expensive it will be. Also important to note is that while the fees associated with creating a living will are paid upfront a living trust actually saves you money and time by avoiding probate court.

Is a trust document ever made public, like a will?

A will becomes a matter of public record when it is submitted to a probate court, as do all the other documents associated with probate - inventories of the deceased person's assets and debts, for example. The terms of a living trust, however, need not be made public.

Does a trust protect property from creditors?

Holding assets in a revocable trust does not shelter those assets from creditors. A creditor who wins a lawsuit against you can go after the trust property just as if you still owned it in your own name.

After your death, however, property in a living trust can be quickly and quietly distributed to the beneficiaries (unlike property that must go through probate). That complicates matters for creditors; by the time they find out about your death, your property may already be dispersed, and the creditors have no way of knowing exactly what you owned (except for real estate, which is always a matter of public record). It may not be worth the creditor's time and effort to try to track down the property and demand that the new owners use it to pay your debts.

On the other hand, probate can offer a kind of protection from creditors. During probate, known creditors must be notified of the death and given a chance to file claims. If they miss the deadline to file, they're out of luck forever.

Do I need a trust if I'm young and healthy?

Probably not. At this stage in your life, your main estate planning goals are probably making sure that in the unlikely event of your premature death, your property is distributed how you want it to be and, if you have young children, that they are cared for. You don't need a trust to accomplish those ends; writing a will, and perhaps buying some life insurance is sufficient.

Can a living trust save taxes?

A simple probate-avoidance living trust has no effect on either income or estate taxes. More complicated living trusts, however, can greatly reduce your federal estate tax bill if you expect your estate to owe estate tax at your death.

Your Estate and Taxes: Frequently Asked Questions

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Will my estate have to pay taxes after I die?

It depends. The federal government imposes estate taxes at your death only if your property is worth more than a certain amount based on the year of death. By some estimates, this means more than 99 percent of estates do not pay any estate tax. In 2022, the exemption limit is $12,060,000 ($11,700,000 in 2021). Estates worth more than $12,060,000 are taxed at 40 percent. For married couples, the exemption is $24.12 million. There are a couple of important exceptions to the general rule, however. All property left to a spouse is exempt from the tax, as long as the spouse is a U.S. citizen and estate taxes won't be assessed on any property you leave to a tax-exempt charity.

Do states also impose estate taxes?

Most states impose estate taxes of some kind. In many cases, there's a state inheritance tax only where a federal estate tax would apply. But some states have estate taxes that are "uncoupled" from the federal tax, and some have inheritance taxes.

Inheritance taxes are paid by your inheritors, not your estate. Typically, how much they pay depends on their relationship to you.

Twelve states and the District of Columbia impose an estate tax while six states have an inheritance tax. Maryland is the only state with both an estate tax and an inheritance tax.

Estate Tax

- Connecticut
- District of Columbia
- Hawaii
- Illinois
- Maine
- Maryland
- Massachusetts
- Minnesota
- New York
- Oregon
- Rhode Island
- Vermont
- Washington

Inheritance Tax

- Iowa
- Kentucky
- Maryland
- Nebraska
- New Jersey
- Pennsylvania

How can I minimize federal estate taxes?

There are several ways. One common way to do this is to leave your children, directly or in trust, an amount up to the estate tax exemption amount ($12,060,000 in 2022) and the balance to your spouse.

Can I avoid paying state estate taxes?

In most states that base inheritance taxes on the federal estate tax, steps that avoid federal tax also avoid state tax. If your state imposes some other kind of estate tax, your professional advisor can help you minimize state tax by taking actions specifically adapted to that tax.

If you live in two states, for instance, Florida in winter and summer in New Jersey, your inheritors may be able to save on estate taxes if you make your legal residence in the state with lower inheritance taxes.

Can I just give all my property away before I die and avoid estate taxes?

You can give up to $16,000 in 2022 ($15,000 in 2021) per person per year with no gift tax liability. Gifts exceeding that amount are counted against a gift tax exemption of $12,060,000. Gifts exceeding that exemption are subject to gift tax. At your death, these gifts could become your taxable estate (with a credit for gift tax paid).

There are, however, a few exceptions to this rule. You can give an unlimited amount of property to your spouse unless your spouse is not a U.S. citizen, in which case you can give away up to $100,000 indexed for inflation; the 2022 amount is $164,000 ($159,000 in 2021) per year free of gift tax. Any property given to a tax-exempt charity avoids federal gift taxes. Money spent directly on someone's medical bills or school tuition, is exempt as well.