CERITY PARTNERS®

What's New in 2022

Gift and Estate Tax Exemption Updates

President Biden's Build Back Better bill is still winding its way through Congress. In the meantime, the IRS has issued its 2022 annual adjustments for numerous tax provisions.

These include the following exclusions for gift, estate, and generation skipping transfers:

1 Transfer tax exemption for lifetime gifts, death transfers, and generation-skipping transfers

The annual inflation adjustment for federal gift, estate, and generation-skipping tax exemption increased from $11.7 million in 2021 to $12,060,000 million in 2022. For married couples, the exclusion is now $2,420,000 million. The gift and estate exemption is unified, meaning it includes both an individual's lifetime taxable gifts and taxable estate at death. The generation-skipping exemption is a separate limit and applies to transfers to grandchildren, outright or in trust, and to certain other individuals aged 37.5 years younger than the transferor.

Unless additional tax legislation is enacted, the higher exemption annually indexed for inflation is good through 2025. Additionally, in late 2019, the IRS clarified that individuals taking advantage of the increased gift tax exclusion up to 2025 will not be adversely impacted when the exclusion amount is scheduled to drop to pre-2018 levels.

2 Gift tax annual exclusion

The gift tax annual exclusion allows taxpayers to make certain gifts without using their lifetime exemption amount. In 2022, the gift tax annual exclusion increased to $16,000 per recipient. Outright gifts to recipients qualify for the annual exclusion.

If the gifts are made via trust, the trust must be written to include a "Crummey withdrawal power" to qualify as a present interest gift for the annual exclusion. Crummey powers give a beneficiary a limited time — often 30 or 45 days — to withdraw contributions to a trust thereby converting the future interest gift to a present interest gift. The withdrawal right is generally limited to an amount equal to the current annual gift tax exclusion.

A separate gift tax annual exclusion for gifts to spouses who are not U.S. citizens increased to $164,000.

3 Other payments excluded from the annual and lifetime gift exemption

Tuition payments made directly to the recipient's educational institution and medical payments (including medical insurance) paid directly to the recipient's medical or insurance provider are excluded from the annual and lifetime gift tax exemption.

The same exemptions are true for gifts to a spouse who is a U.S. citizen and qualifying charitable organizations.

Tax Provision	2022	Change from 2021
Federal Estate Exemption		
Per Individual	$12,060,000	$360,000 increase
Annual Gift Exclusion		
Per Individual	$16,000	$1,000 increase (first change since 2017)
Annual Gift Exclusion		
Per Non-Citizen Spouse	$164,000	$159,000

Additional Resource: [IRS.GOV]

What this means for you

Even if your estate is not subject to a federal estate tax, you or your heirs may not necessarily be off the hook. Your estate might be subject to a state estate tax. Exemptions for state estate taxes are often much lower than the federal estate tax exemption. On top of that, some states charge heir a state inheritance tax.

The everchanging landscape of federal estate and gift tax laws present both planning opportunities and challenges. Proper planning is key.

Contact your team at Cerity Partners to review your individual situation. We specialize in wealth protection, transfer strategies, asset titling and beneficiary review, charitable planning, and gift coordination. All our recommendations are tailored to a client's unique situation, and they reflect our expansive knowledge of estate, trust, gift, and tax laws. Contact us today to learn more about this critical facet of guarding your future wealth.

4091768 (01/22)