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Gifting With Purpose

How a couple can use annual gifts and the lifetime exclusion to bless children and grandchildren, and potentially reduce future estate tax.

An introduction to the 2026 and 2027 federal gift and estate tax rules, how the pieces fit together, and the questions to settle with your attorney and tax advisor before you give.

For couples whose estates may approach or exceed the federal exemption, and the advisors who serve them.

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THE BIG PICTURE

Three Ways to Give Before Gift Tax Applies

For most families, making a gift does not create an immediate gift-tax bill. It may require tracking and, for larger gifts, a gift-tax return. A donor owes federal gift tax only after using up the lifetime exclusion, and several ways to give stack on top of each other.

ANNUAL	LIFETIME	TOP RATE	DIRECT PAYMENTS
$19,000	**$15M**	**40%**	**No cap**
Per recipient, per giver, 2026	**Per person, 2026**	**On taxable transfers above the exclusion**	**Tuition and medical bills**
$38,000 per recipient for a couple. [1]	$30M for a married couple. [1]	Gift, estate and GST tax. [2]	Paid directly to the school or provider. [3]

The three tools

1 · Annual exclusion

Give up to $19,000 to each person in 2026 without using any lifetime exclusion. A married couple can combine to $38,000 per recipient. It resets every January and rises to $20,000 in 2027. [4]

2 · Tuition and medical

Pay a school's tuition or a provider's medical bills directly for anyone, and the payment is not a taxable gift. It is also outside the generation-skipping tax. Books and room and board do not qualify. [2]

3 · Lifetime exclusion

Larger gifts are reported on Form 709 and count against $15,000,000 per person in 2026. No tax is due until it is used up. It is the same exclusion that applies to your estate at death. [3]

Illustration: a couple with two children and four grandchildren

Six recipients × $38,000 = **$228,000** in 2026 without touching the lifetime exclusion. At a 40% estate tax rate, that could remove up to roughly **$91,000** of potential federal estate tax each year, if the estate would otherwise be taxable. Hypothetical, before growth on the gifts.

Each gift is also a chance to teach. Families who give with a purpose, a conversation and a plan often find the gift means more than the amount.

What could your family do with a plan that is generous, intentional and tax-aware?

Hypothetical illustration. Gifts are generally irrevocable. Tax laws change and state rules differ. Not legal or tax advice.

STEP 1 · KNOW WHAT YOU ARE WORKING WITH

How the Lifetime Exclusion Works

One exclusion covers both gifts made during life and assets left at death. Using it during life does not create extra room. It moves value, and its future growth, out of your estate.

Gifts during life
Taxable gifts above the annual exclusion, reported on Form 709

+

Estate at death
Everything you still own, including some trust assets

=

Measured together
Against $15,000,000 per person in 2026 [1]

A hypothetical couple

Estate snapshot (simplified)	Amount
Combined estate value	**$40,000,000**
Combined 2026 exclusion ($15,000,000 × 2)	**$30,000,000**
Amount above the exclusion	**$10,000,000**
Potential federal tax at 40%	**About $4,000,000**

The key insight

Giving $10 million away using the lifetime exclusion does not erase the $10 million over the line, because lifetime gifts and the estate draw from the same $30 million. The real savings come from two places: **gifts that do not use the lifetime exclusion** (annual exclusion, tuition and medical), and **removing the future growth** of what you give.

Does not use the lifetime exclusion. Annual exclusion gifts and direct tuition or medical payments generally do not reduce it. [3]

Uses part of the lifetime exclusion. Gifts above the annual exclusion reduce what remains for later, but the growth after the gift is not taxed in your estate.

Married couples and portability

Portability may preserve a deceased spouse's unused estate and gift tax exclusion if a timely estate tax return is filed. [1] The generation-skipping transfer (GST) tax exemption is separate and does not transfer to the surviving spouse. [5]

Simplified; ignores deductions, state taxes, portability and the exact tax computation. Not legal or tax advice.

STEP 2 · WHY TIMING MATTERS

Give the Asset. Freeze the Growth.

A gift is measured at its value on the day you give it. Everything the asset earns afterward belongs to the recipient, not to your estate.

Keep $2,000,000 until death

- Grows to about **$6.41 million**
- The full amount is in the estate
- Potential federal tax at 40%: about **$2.57 million**, if the estate is otherwise taxable

Give $2,000,000 today

- Uses **$2 million** of lifetime exclusion
- Growth of about **$4.41 million** happens outside the estate
- Potential tax on that growth avoided: about **$1.77 million**

Hypothetical 6% annual growth for 20 years; not a projection or promise. Ignores income taxes, fees and other factors.

The trade-off to understand: tax basis

If you give the asset during life	If the heir inherits it at death
The recipient generally takes your cost basis, so a later sale can trigger capital gains tax on all of the gain. [3]	The recipient's basis generally resets to market value at death, which can reduce or erase gain that built up during your life. [6]

A common planning principle

Many planners consider giving cash or assets with little built-in gain, and holding low-basis assets until death, when the basis can reset. The right mix depends on your estate size, state, assets and family. Estate tax savings and income tax costs both belong in the same conversation.

Best candidates to give. Assets expected to grow, with a cost basis close to current value, and that you will not need.

Often better to hold. Highly appreciated assets with a low basis, where a step-up may help your heirs.

Which assets would you be glad to see grow in your children's and grandchildren's hands?

Tax outcomes depend on individual circumstances and law at the time. Not legal or tax advice.

STEP 3 · REACHING THE NEXT GENERATION

Giving to Grandchildren: The GST Rule

Gifts that skip a generation may also face the generation-skipping transfer (GST) tax, at the same top rate of 40%. Each person has a separate GST exemption: $15,000,000 in 2026 and $15,480,000 in 2027. [7][4]

1 You The donor ▸ **2 Children** Gift tax rules apply ▸ **3 Grandchildren** Gift tax and GST rules apply

How gifts to grandchildren are usually handled

Type of gift	GST treatment
Direct tuition or medical payments	Not a gift, so not subject to GST tax. [2]
Gifts within the annual exclusion, given directly	Generally no GST exemption needed; confirm with your advisor.
Larger gifts, or gifts to long-term trusts	May need GST exemption allocated on Form 709, sometimes automatically. [2]

Each spouse has a separate GST exemption

Unlike the estate and gift tax exclusion, unused GST exemption is not portable. If the first spouse's GST exemption goes unused, it is generally lost. [5]

Why it matters

A trust designed to last for children, grandchildren and beyond can allocate GST exemption once and continue to benefit the family without another round of estate tax at each generation. These trusts are irrevocable and detailed. They require an experienced estate attorney.

Planning across generations. Parents who receive less may be able to leave more to their own children, and grandchildren can benefit sooner.

Do not skip the paperwork. Because the GST tax is separate, a gift that looks fine under gift tax rules may still need Form 709 reporting.

Do you want your gifts to help one generation, or to keep helping the next three?

GST rules are complex. Confirm each gift with your attorney and tax advisor. Not legal or tax advice.

WAYS TO GIVE

Choosing How to Give

The right vehicle depends on the recipient's age, the size of the gift, how much control you want and how long you want it to last.

Method	Often used for	What to know
Annual exclusion gift	Regular, simple giving to children and grandchildren	Up to $19,000 per recipient in 2026 ($38,000 per couple). To give to a minor, use a custodial account or trust.
Direct tuition or medical payment	Education and health costs for anyone	Must be paid directly to the school or provider. Tuition only; not books, room or board. [2]
529 plan, five-year election	Funding a grandchild's education in one step	Up to five times the annual exclusion per beneficiary ($95,000, or $190,000 per couple, in 2026), elected on Form 709. [2] Other gifts to that beneficiary in the five years count against your lifetime exclusion. If the donor dies before the five-year period ends, the remaining allocable portion may be included in the donor's gross estate. [8]
Irrevocable family trust	Larger gifts with timing, protection and GST planning	Uses lifetime exclusion unless designed to qualify for the annual exclusion. Requires an experienced estate attorney. A gift of a future interest cannot use the annual exclusion. [2]
Custodial account (UTMA)	Modest gifts to a minor	Simple, but the child gains control at the age set by state law.

Married couples: gift splitting

Spouses cannot file a joint gift tax return, but they can elect to treat each gift to a third party as made half by each. Both must consent, and both become responsible for any gift tax. Consent is generally given by April 15 of the following year. [2]

Insurance and liquidity

Some families also use life insurance owned by a properly structured trust to provide cash for taxes or to treat children fairly when assets are not easily divided. See the case study on page 9 and the FAQ on page 10. Suitability, cost and tax treatment depend on individual circumstances and professional advice.

Which of these tools fits the way you want your family to experience your gift?

Rules vary by state and plan. Hypothetical examples only. Not legal, tax or investment advice.

BEFORE YOU GIVE

What to Weigh Before You Give

A good gifting plan starts with security for the givers. These six questions help keep generosity and prudence in balance.

1

Will I still have enough?

Gifts are generally irrevocable. Fund your own lifestyle, health care and long-term care first, then give from the surplus.

2

What about income tax?

Gifted assets generally keep your cost basis, so a later sale can bring capital gains tax. [3]

3

Does my state tax estates?

As of 2026, 12 states and D.C. have an estate tax, and five have an inheritance tax, often with thresholds far below the federal level. Connecticut is the only state with its own gift tax. [9]

4

Could the law change?

The $15 million exclusion has no scheduled expiration and is indexed, but Congress can change it. In 2019 the IRS confirmed past gifts would not be clawed back after a prior reduction. Protection after a future change would depend on future rules. [10]

5

Is the recipient ready?

Large outright gifts to young adults can create problems. Trusts can add timing, guidance and protection.

6

Is the paperwork done?

Gifts above the annual exclusion go on Form 709, due April 15 of the following year. Hard-to-value assets may need appraisals. [2]

Some states count lifetime gifts

A few states, such as Illinois and Massachusetts, add federal taxable gifts back into the state estate tax calculation, so lifetime gifts may not avoid state estate tax. Ask your attorney how your state treats gifts. [7]

What would make you feel secure enough to give with confidence?

State laws change frequently. Confirm current rules with a qualified attorney in your state. Not legal or tax advice.

PUTTING IT INTO PRACTICE

A Five-Step Gifting Roadmap

A plan does not need to be complicated. It needs to be written down, reviewed and repeated every year.

1	**Measure**	Total your assets, including life insurance and retirement accounts, and compare them with the exclusion and your state's threshold.
2	**Set your floor**	Decide how much you need for your own lifestyle, health and long-term care. Give from what is left.
3	**Choose the tools**	Match annual gifts, direct tuition and medical payments, 529 plans and trusts to each person and goal.
4	**Document**	Keep records, file Form 709 when required, and keep the estate attorney and CPA in the loop.
5	**Review yearly**	Revisit the plan as law, family and values change.

Timely: the 2026 year-end window

Annual exclusion gifts for 2026 generally must be completed by **December 31, 2026**. The annual exclusion then rises to **$20,000** on January 1, 2027, so one giver can give $19,000 in December and $20,000 in January, **$39,000 per recipient** in two months, or $78,000 for a couple, without touching the lifetime exclusion. [4][2]

Questions for your attorney. Are my documents current? Which trusts fit? How does my state treat gifts and estates?

Questions for your CPA. Which assets should I give? Do I need Form 709? What is the basis of what I give?

What is one gift you could plan before the year ends?

Gift timing and completion rules are technical. Confirm with your advisors. Not legal or tax advice.

A HYPOTHETICAL CASE STUDY

Preserving a $60 Million Naples Estate

How annual gifts and a survivorship life insurance policy owned by an irrevocable trust could provide cash for estate tax, without forcing a sale of family property.

$60M
Net worth: a $12M waterfront home, $28M of commercial real estate and business interests, and $20M of securities

$12M
Projected federal estate tax under 2026 law: ($60M − $30M) × 40%

$190K
Yearly annual-exclusion capacity: 5 beneficiaries × $38,000

The couple. Richard (74) and Margaret (72), a hypothetical married couple in Naples, with two adult children and three grandchildren. Florida has no state estate or inheritance tax, so the planning focuses on federal tax. [7] Federal estate tax is generally due nine months after death, [11] creating a potential need for substantial liquidity before other assets can be sold or transferred. Without it, the executors may have to sell real estate or securities on a short timeline, possibly at a discount.

The strategy

1
Create the trust
The couple creates an irrevocable life insurance trust (ILIT) with an independent trustee. Children and grandchildren are the five beneficiaries, each with a temporary right to withdraw gifts (Crummey rights).

2
Trust buys the policy
The trustee applies directly for a $12M survivorship policy covering both spouses. It pays at the second death, when the tax is due. Applying through the trust avoids the three-year rule for transferred policies. [12][13]

3
Fund with annual gifts
With gift splitting on Form 709, the couple gives up to $38,000 per beneficiary, or $190,000 a year, to the trust. The trustee sends withdrawal notices, allows the withdrawal period to pass, then pays the premium. [2]

At the second death (simplified)	No insurance	Policy owned personally	Policy owned by ILIT
$12M death benefit in the taxable estate	None	Yes	No [13]
Gross estate	$60M	$72M	$60M
Federal estate tax at 40%	$12.0M	$16.8M	$12.0M
Cash to pay the tax	Sell assets	Policy cash, but $4.8M more tax	ILIT can lend to the estate or buy assets
Total to heirs, before premium costs	**$48.0M**	**$55.2M**	**$60.0M**

Liquidity. The trust can provide cash when the tax comes due, so family properties can stay in the family.

Lifetime exclusion preserved. Premiums within the annual exclusions do not use the $30M lifetime exclusion. Any excess does.

What to confirm

Real premiums depend on health ratings and product design, and may be above or below $190,000 a year. Premiums paid reduce the estate and are a real cost. Because grandchildren are skip persons, counsel should allocate GST exemption to the trust on Form 709. The trust is irrevocable.

Hypothetical and simplified: 2026 law; ignores premium cost, growth, deductions, portability mechanics and the marital deduction at the first death. Not a recommendation. Not legal or tax advice.

QUESTIONS FAMILIES ASK

Funding an ILIT With Annual Gifts: FAQ

Straight answers to the questions that come up most when a couple considers an irrevocable life insurance trust (ILIT).

1 Can we deduct our gifts to the trust on our income tax return?

No. Gifts to individuals or family trusts are not deductible. The annual exclusion ($19,000 per recipient in 2026, or $38,000 for a couple who split gifts) avoids gift tax and preserves your lifetime exclusion, but the money you give is after-tax. [2]

2 Do our children or grandchildren owe income tax when we fund the trust?

The gift itself is generally not income to the beneficiary. [14] However, income earned inside the trust and later trust distributions can have separate tax consequences.

3 Are the policy proceeds taxed?

Life insurance proceeds are generally received income-tax-free. [15] However, the proceeds may still be included in the insured's taxable estate if the insured retains certain ownership rights. [13] Transferring an existing policy can also trigger the three-year rule. [12] Proper ownership, drafting and ongoing administration are essential.

4 Why not just write checks to our beneficiaries each year?

Direct gifts get the same gift tax treatment but give you no control. A beneficiary could spend the money instead of paying the premium, and the funds could be exposed to creditors, lawsuits or divorce. A trust directs the money to keep the policy in force.

5 What is a Crummey notice, and why is it required?

The annual exclusion needs a present-interest gift, one the recipient can use now. [2] A Crummey provision gives each beneficiary a short window, often 30 days, to withdraw their share. The trustee sends written notice each time, and once the window passes, pays the premium.

6 What if the premium is more than our annual exclusions?

The excess is reported on Form 709 and uses part of your lifetime exclusion ($15,000,000 per person in 2026). No gift tax is due unless you exceed it. [1] Note that every dollar used leaves less to shelter your estate at death.

7 Can we move an existing policy into the trust to save time?

You can, but if you die within three years of the transfer, the death benefit may be pulled back into your estate. [12] Having the trust apply for a new policy directly avoids that rule from the start.

8 How does the trust's cash pay our estate tax?

The trustee generally cannot pay the estate's tax directly without risking estate inclusion. [13] Instead, the trustee may lend cash to the estate at a commercial rate, or buy illiquid assets such as real estate or business interests from the estate at fair market value. That gives the executors cash when the tax is due.

Which of these questions would you most want your attorney to answer for your family?

General education only; rules depend on trust design, state law and individual facts. Confirm with your estate attorney and tax advisor. Not legal or tax advice.

THE INVITATION

Explore Whether a Gifting Plan Fits Your Family

You do not need to decide anything today. A 30-minute conversation can help you organize your questions, understand how the pieces fit together and prepare to work with your estate attorney and tax advisor.

During our conversation, we will explore:

- How annual gifts, direct payments and the lifetime exclusion could fit your family
- What to ask your attorney and CPA before you give
- How trusts and, where appropriate, life insurance for estate liquidity may fit
- Timing, including the 2026 year-end window
- How to give with purpose and confidence

Bring your questions. Leave with greater clarity. Decide on your own timeline.

Scan to book

Book a 30-Minute Family Planning Conversation

1. **Schedule** a 30-minute Zoom conversation at calendly.com/nandasringari/meet-on-zoom or scan the code.
2. **Bring** your family's goals and your questions.
3. **Decide** on your own timeline, with the facts in front of you.



A note from Nanda

I started in engineering and information technology, and I have been an entrepreneur for more than 30 years. With my wife, Sangeetha, I raised three children, now adults. Money matters, but what it makes possible matters more: choices, protection and the freedom to bless the people we love. My goal is to help families see their options clearly. I do not give legal or tax advice. I work alongside your attorney and CPA.

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SOURCES

Where the facts and figures come from

Figures are from the cited public sources and were reviewed as of November 24, 2026. Tax law changes; please verify before relying on them.

[1] IRS, "What's new — Estate and gift tax": 2026 basic exclusion amount $15,000,000 (Public Law 119-21); 2026 annual exclusion $19,000; portability of the deceased spousal unused exclusion. irs.gov

[2] IRS, Instructions for Form 709 (2025): tuition and medical payment rules, gift splitting, 529 five-year election, future-interest gifts, GST direct skips and exemption allocation, due dates, and the 40% top rate. The 2026 edition was not yet available at review. irs.gov

[3] IRS, "Frequently asked questions on gift taxes": tuition and medical exclusions, Form 709 reporting, carryover basis of gifted property, and the donor's responsibility for gift tax. irs.gov

[4] IRS, IR-2026-133 (November 5, 2026) and Rev. Proc. 2026-35: for 2027 the annual gift exclusion is $20,000 and the basic exclusion amount is $15,480,000; the basic exclusion amount also sets the GST exemption under § 2631(c). irs.gov/pub/irs-drop/rp-26-35.pdf

[5] The Tax Adviser (AICPA), "Portability of Unused Estate and Gift Tax Exclusion Between Spouses": the GST tax exemption is not portable. thetaxadviser.com

[6] 26 U.S.C. § 1014: basis of property acquired from a decedent generally equals fair market value at the date of death. law.cornell.edu

[7] Faegre Drinker, "2026 Estate Tax Exemption and Planning Considerations" (January 12, 2026): $15,000,000 gift, estate and GST exemptions; 40% top rate; Illinois and Massachusetts include federal adjusted taxable gifts in the state estate tax base. faegredrinker.com

[8] 26 U.S.C. § 529(c)(2)(B) and (c)(4)(C): five-year election for contributions above the annual exclusion; the portion allocated to years after the donor's death is included in the donor's gross estate. law.cornell.edu

[9] Key Wealth Institute, "2026 State Summary of Inheritance, Estate, Gift, and Generation-Skipping Transfer Tax": twelve states plus D.C. with an estate tax; five with an inheritance tax; Connecticut the only state with a standalone gift tax. key.com

[10] IRS, IR-2019-189 and T.D. 9884: final regulations confirming no clawback of gifts made under the increased 2018–2025 exclusion. irs.gov

[11] 26 U.S.C. § 6075(a): estate tax returns are due nine months after the decedent's death. law.cornell.edu

[12] 26 U.S.C. § 2035(a): transfers within three years of death of interests that would have been included under § 2042 are brought back into the gross estate. law.cornell.edu

[13] 26 C.F.R. § 20.2042-1: proceeds of insurance on the decedent's life are included in the gross estate if the decedent held any incidents of ownership at death. ecfr.gov

[14] 26 U.S.C. § 102: the value of property acquired by gift is not included in the recipient's gross income. law.cornell.edu

[15] 26 U.S.C. § 101(a): life insurance proceeds paid by reason of the insured's death are generally excluded from income, subject to the transfer-for-value rule. law.cornell.edu

Disclosure and disclaimer

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