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Gift tax is a federal transfer tax that is assessed on an individual who transfers assets to another individual during life. The tax is computed using the Gift and Estate Tax Schedule applicable in the year of transfer and with reference to the donor's annual gift tax exclusion and available gift tax credit.

## **Example**

Suppose Fred Donor gives \$100,000 to his son in 2011. Fred has applied his gift tax credit against \$5,000,000 in past taxable gifts and makes no other taxable gifts in 2011. The tax on Fred's gift to his son would be computed as follows:

The annual gift tax exclusion in 2011 is \$13,000, which reduces Fred's taxable gift to \$87,000. Use the Gift and Estate Tax Schedule to compute the tentative gift tax on \$5,087,000 (\$5,000,000 in past taxable gifts + \$87,000 in current taxable gifts), which is \$1,761,250. Then, subtract 2011's gift tax credit from this tax \$1,761,250 - \$1,730,800 = \$30,450. Fred will owe \$30,450 in gift tax on his \$100,000 gift to his son.

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