

# The Gift Tax, Explained

If you're providing a financial gift to help a relative buy a home, you might be wondering what the tax implications are for doing so. You'll be happy to learn that for most people, there is no gift tax. The federal government allows each person both an annual and lifetime "allowance," which are known as exclusions. Only after you exceed the \$5.49 million lifetime allowance would you need to pay a gift tax.

## \$14,000 Annual Exclusion

Each year, you can give \$14,000 to anyone without needing to report the gift to the IRS. Beyond \$14,000, the figure will count towards your Lifetime Exclusion. That means that if a child can receive \$14,000 from both mom and dad without the need for an IRS report to be filed.

## \$5.49 Million Lifetime Exclusion

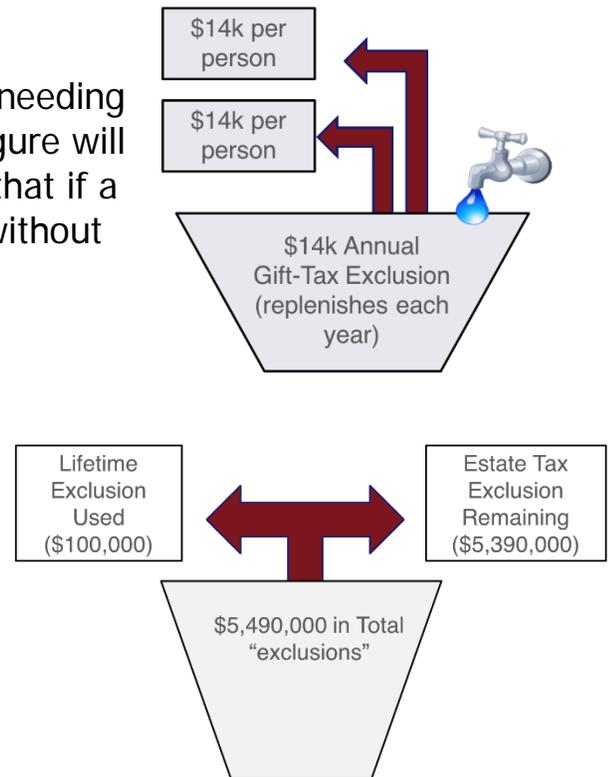
Let's say you give \$114,000, which is \$100,000 more than the \$14,000 annual exclusion. In this case, that \$100,000 difference would count towards your lifetime exclusion, reducing it from \$5.49 million to \$5.39 million. This would mean that if your estate is worth less than \$5.39 million, your heirs wouldn't need to pay estate tax. This is because your lifetime exclusion bucket is used for both gift and estate purposes.

## Required Paperwork

Whenever a financial gift is given in a mortgage transaction, the donor must provide a gift letter (see page 2), and in some cases, document proof of their ability to gift the funds. For tax purposes, if you're using the \$14,000 annual exclusion bucket, you will not need to report it to the IRS. If the gift is more than \$14,000, you will need to file a gift tax return (even though no gift tax would be due). The reason this return is filed is to notify the IRS that you're using part of your lifetime gift / estate tax exclusion.

**Have Questions? [Contact Us.](#)**

Please note: this letter and overview is provided for informational purposes only and does not constitute legal, tax, or financial advice. Please consult with a qualified tax advisor for specific advice pertaining to your situation. For more information on any of these items, please reference IRS publication 559. Also, this article references the federal gift tax. Your state gift tax laws may be different.



# Gift Letter

## To Whom It May Concern:

I/We \_\_\_\_\_ are making a bona fide gift  
of \$ \_\_\_\_\_ to our \_\_\_\_\_,  
(Relationship)  
\_\_\_\_\_, for the purchase of property located at  
(Name of Recipient)  
\_\_\_\_\_  
(Address)

It is expressly understood that this is an outright gift and not a loan in any form, and that repayment either in the form of service or cash is not expected at this time or at any time in the future.

I/We further certify that the funds to be used for this gift were not provided by anyone who directly or indirectly has any financial interest in the sale and conveyance of the above mentioned property.

Date: \_\_\_\_\_  
(Signature)  
\_\_\_\_\_  
(Signature)  
Address: \_\_\_\_\_  
\_\_\_\_\_  
Phone No. ( \_\_\_\_\_ ) \_\_\_\_\_

### WE ARE AWARE OF THE FOLLOWING:

Section 1010 of Title 18, U.S.C., Federal Housing Administration transaction provides:  
"Whoever, for the purpose of influencing in any way the action of such Administration makes, passes, utters, or publishes any statement, knowing the same to be false, shall be fined not more than \$5,000 or imprisoned not more than 2 years, or both."

\_\_\_\_\_  
Signature of Borrower

\_\_\_\_\_  
Signature of Borrower

# Gift of Funds Notice to Loan Applicants

If you anticipate receiving funds for your loan closing in the form of a gift, we must ask that you complete the steps below to document receipt and transfer of the funds.

We invite you to use this handy checklist:

- I have completed this gift form and ensured that all parties signed and dated it.
- I have provided a copy of the gift check before depositing it.
- I have deposited the gift check as a solo item – (do not co-mingle it with other checks or cash.)
- \*I have provided an updated bank statement or transaction history after the deposit was made so that Apex Home Loans can see the gift check/wire going into my bank account.

(\*Please note that Internet printouts should cover the history from the date of the last bank statement you provided through the deposit date of your gift funds and the printout must include your name, account number, and the web site URL(web site address) in order for the printout to be acceptable).

- If the gift was provided by:
  - CHECK – I have obtained a copy of the cancelled check (front and back) from the donor.
  - WIRE – I have obtained the wire advice from the donor to match the wire receipt into my account.
- For FHA Loans only: A copy of the Donor's Bank Statement will also be required to document proof of the Donor's ability to gift these funds.

**Borrower: Please complete the following, indicating where and when gift funds will be deposited:**

Name of Your Bank \_\_\_\_\_

Mailing Address of the  
Bank Branch where this  
Account is Maintained \_\_\_\_\_  
\_\_\_\_\_

Account Number \_\_\_\_\_  
Type of Account Checking, Savings, Money Market Fund, Other \_\_\_\_\_  
Transfer/Deposit Date \_\_\_\_\_