Lifetime Gifts vs. Transfers at Death

This chart explains the differences between the transfer of property through lifetime gifting and the transfer of property on death.

	Lifetime Gifting	Transfer at Death
Step-up in Basis	**No step-up in basis.** Property transferred by lifetime gifting retains the cost, referred to as basis, held by the grantor. This means, when the property is sold, the seller must use his/her basis to determine any gains and taxable income.	**Property transferred receives step-up in basis.** When a beneficiary receives a testamentary gift, the value of the gift receives a step-up in basis to the fair market value on the date of death.
Control of Property	**No control.** To take advantage of the annual exclusion, the grantor must make a gift of a present interest in property. Therefore, the grantor must relinquish to the all dominion and control over the property	**Control until death.** The grantor may use and control the property throughout the grantor's lifetime.
Use of Annual Exclusion	**Allowed.** Each year an individual may gift any other individual up to a certain amount without gift tax consequences. The grantor can use the annual gifting exclusion to reduce the value of their gross estate and to transfer appreciable and income producing property.	**Not allowed.** The gross estate includes the value of all property on the date of death. An individual must use the opportunity to lower the amount of the gross estate through gifting during the individual's lifetime.
Payments for Education and Medical Care	**Non-taxable.** Any lifetime transfer of property directly to a school or college for tuition and a transfer made directly to a provider of medical care are not taxable gifts.	**Taxed as part of the gross estate.** Any payments made to an educational institution or medical provider as a testamentary transfer are included in the gross estate and taxed at the applicable rate.
Tax Consequences	**None for gifts up to the annual exclusion amount.** Any amount gifted over the annual exclusion reduces the total of the lifetime exemption by that amount.	**Estate taxed.** The decedent owes estate tax if the gross estate is over the amount of the federal exemption and any applicable state exemption.
Long-Term Care Consequences	**Potential ineligibility and state recovery for Medicaid.** When an individual receives Medicaid for long-term care, states generally must attempt to recover costs from the estates of those that receive benefits. Lifetime gifting before application may shield assets from recovery, but can also jeopardize an individual's eligibility for Medicaid.	**State recovery for Medicaid.** If the decedent received Medicaid for long-term care, the state can generally recover the costs of the benefits from the decedent's estate. The state makes a claim against the estate to recover the costs.