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INSIGHT MEMO | 2026

Gifting to Friends and Family

Understanding the Annual Gift Exclusion and the Special Rule for Medical Expenses

2026 AT A GLANCE			
$19,000	**$38,000**	**Unlimited***	**$15 Million**
Annual exclusion per donor, per recipient *Not a gifting ceiling*	**Married donors** potential combined exclusion when gifts are split	**Qualified medical payments** when §2503(e) requirements are satisfied	**Basic exclusion amount** per individual

*IRC §2503(e) has no overall dollar cap for qualified medical transfers. Specific medical-care categories may have separate statutory limits. The payment structure and direct-provider requirement remain critical.

Individuals often provide financial assistance to family members, friends, and others who may need help with ordinary living expenses, medical costs, or other financial obligations. While these transfers are generally considered gifts for federal gift-tax purposes, the Internal Revenue Code provides important exclusions that can permit substantial transfers without current gift tax.

One particularly valuable planning opportunity involves the direct payment of another person's qualifying medical expenses. When structured properly, these payments can be made **in addition to ordinary annual exclusion gifts without consuming the donor's lifetime basic exclusion amount.**

Annual Exclusion Gifts

For 2026, an individual may generally exclude up to **$19,000 of qualifying gifts to each recipient during the calendar year**. This is an exclusion, not a maximum amount a person is legally permitted to give.

Multiple ordinary gifts to the same individual are aggregated during the year. For example, $1,000 per month of cash support equals $12,000 of annual gifts, leaving $7,000 of the 2026 annual exclusion available for additional qualifying gifts to that recipient.

Relevant Tax Authority
IRC §2503(b) - Annual exclusion for qualifying gifts.
Treas. Reg. §25.2503-3 - Present and future interests.
Rev. Proc. 2025-32 - 2026 inflation-adjusted amounts.

Present Interests, Future Interests, and Completed Gifts

The annual exclusion generally applies to a **present interest** - a gift that gives the recipient an immediate and unrestricted right to use, possess, or enjoy the property. Outright cash gifts are the most common example.

A future-interest gift does not qualify for the annual exclusion and can create a Form 709 filing requirement even when its value is below the annual exclusion amount. The transfer must also be a completed gift; conditional or revocable transfers may not constitute completed gifts for gift-tax purposes.

Relevant Tax Authority
IRC §2503(b) - Annual exclusion.
Treas. Reg. §25.2503-3 - Present and future interests.
Treas. Reg. §25.2511-2 - Completed and incomplete gifts.

Married Donors and Gift Splitting

Married individuals may potentially combine their annual exclusions, allowing **$38,000 of annual exclusion gifts to the same recipient in 2026**. A gift made by one spouse may, with the required consent, be treated as made one-half by each spouse.

Gift splitting has procedural requirements and may require Form 709 filings even when the split gift produces no taxable gift. Accordingly, married donors should confirm the appropriate reporting before relying on the combined exclusion.

> **Relevant Tax Authority**
> **IRC §2513** - Gifts by spouses treated as made one-half by each.
> **Treas. Reg. §25.2513-1 et seq.** - Gift-splitting requirements.

What Happens When Gifts Exceed the Annual Exclusion?

When gifts to a recipient exceed the available annual exclusion, the donor will generally be required to file **Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return**, to report the transfer, even when no gift tax is ultimately payable.

For 2026, the federal basic exclusion amount is **$15 million per individual**. Thus, an ordinary $30,000 cash gift to one recipient would generally produce an $11,000 taxable gift after the $19,000 annual exclusion, with the donor's available unified credit ordinarily offsetting the resulting gift tax unless the donor has exhausted the applicable exclusion.

> **Relevant Tax Authority**
> **IRC §2501** - Imposition of federal gift tax.
> **IRC §2503(a)** - Taxable gifts generally.
> **IRC §2010(c)** - Unified credit and basic exclusion amount.
> **IRC §6019** and **Treas. Reg. §25.6019-1** - Gift-tax return filing requirements.

Special Exclusion for Medical Expenses

IRC §2503(e) provides a separate exclusion for a **qualified transfer** made on behalf of another individual for medical care. A qualifying §2503(e) transfer is not treated as a transfer of property by gift for federal gift-tax purposes.

The exclusion is separate from the annual exclusion and is not restricted to relatives. Thus, a donor can potentially make $19,000 of qualifying annual exclusion gifts to a friend in 2026 and, separately, make qualified medical transfers without consuming the $19,000 annual exclusion or the donor's lifetime basic exclusion amount.

> **Relevant Tax Authority**
> **IRC §2503(e)(1)** - Qualified transfers not treated as transfers by gift.
> **IRC §2503(e)(2)(B)** - Medical-care transfers.
> **Treas. Reg. §25.2503-6** - Qualified medical and educational transfers.

Direct Payment Is Essential

The medical exclusion requires the donor to make the payment **directly to the person providing the medical care**. Giving cash to the patient so the patient can pay the provider does not receive the special §2503(e) treatment.

Similarly, reimbursing an individual after that person has already paid a medical bill generally does not qualify. The medical obligation and payment structure should therefore be coordinated before funds are transferred.

> **Relevant Tax Authority**
> **IRC §2503(e)(2)(B)** - Payment to a person providing medical care.
> **Treas. Reg. §25.2503-6(b), (c)** - Direct-payment requirements and examples.

What Medical Expenses Qualify?

The §2503(e) rules use the definition of **medical care under IRC §213(d)**. Depending on the facts, medical care can include diagnosis, cure, mitigation, treatment or prevention of disease; physicians and hospitals; dental care; certain nursing services; prescription drugs; qualifying medical insurance premiums; and certain transportation primarily for and essential to medical care.

Ordinary living expenses do not become medical expenses merely because the recipient is ill. Rent, food, utilities, housekeeping, and similar personal expenses generally remain ordinary gifts unless they independently satisfy the federal medical-care rules.

> **Relevant Tax Authority**
> **IRC §2503(e)(2)(B)** - Incorporates §213(d).
> **IRC §213(d)** - Definition of medical care.
> **Treas. Reg. §25.2503-6(c)** - Medical-care definition for qualified transfers.

Medical Travel and Lodging - Important Distinction

IRC §213(d) includes certain **transportation primarily for and essential to medical care** and expressly recognizes limited lodging while away from home when statutory requirements are met. Qualifying non-institutional lodging is generally limited to **$50 per night for each individual**. A necessary accompanying person's lodging may also qualify under §213(d), subject to a separate $50-per-night limitation.

However, classification of an expense as "medical care" under §213(d) does **not by itself establish that a payment qualifies for the §2503(e) gift-tax exclusion**. Section 2503(e) separately requires payment to the person providing the medical care. Accordingly, donors contemplating substantial payments for hotels, transportation, or other medical-travel costs should obtain tax advice regarding the payment structure before relying on the unlimited gift-tax exclusion.

Inpatient hospital or institutional meals and lodging can be treated differently when furnished as a necessary incident to qualifying medical care. Ordinary hotel meals generally do not qualify merely because the trip has a medical purpose.

Relevant Tax Authority
IRC §213(d)(1)(B) - Medical transportation.
IRC §213(d)(2) - Qualifying lodging and $50-per-night limitation.
IRC §2503(e)(2)(B) - Separate direct-provider requirement.
Treas. Reg. §1.213-1(e) - Medical care, transportation, meals, lodging and institutional care.
Treas. Reg. §25.2503-6(c) - Gift-tax qualified medical transfers.

Health Insurance Premiums and Reimbursements

Qualifying medical insurance premiums are included within the federal definition of medical care and can qualify for §2503(e) treatment when the gift-tax requirements, including the direct-payment requirement, are satisfied.

The medical exclusion does not apply to amounts reimbursed by the recipient's medical insurance. Where insurance is involved, the patient's ultimate financial responsibility should be established and documented.

Relevant Tax Authority
IRC §213(d)(1)(D) - Medical insurance expenditures.
IRC §2503(e)(2)(B) - Medical-care incorporation.
Treas. Reg. §25.2503-6(c) - Insurance reimbursements.

Income-Tax Treatment to the Recipient

As a general rule, the recipient of a bona fide gift does **not include the value of the gift in gross income**. Gift tax, when applicable, is imposed on the donor rather than the recipient.

Different rules can apply to income subsequently generated by gifted property, and gifts of appreciated or depreciated property can create important basis consequences. Those issues are beyond the scope of this Insight Memo and should be considered separately when property other than cash is transferred.

Relevant Tax Authority
IRC §102(a) - Exclusion of gifts and inheritances from gross income.
IRC §1015 - Basis of property acquired by gift.

A Practical Example

Assume a donor wishes to assist a friend during 2026. The donor provides $19,000 of cash for ordinary living expenses, pays $35,000 directly to a hospital for the friend's surgery, and pays $8,000 directly to the friend's health insurer for qualifying medical coverage.

Annual exclusion cash gift	$19,000
Direct hospital payment	$35,000
Direct qualifying medical insurance payment	$8,000
Total economic assistance	**$62,000**

Assuming the applicable requirements are satisfied, the $43,000 of direct medical payments would be qualified transfers under §2503(e), separate from the $19,000 annual exclusion gift.

Recommended Documentation

- **Ordinary gifts:** recipient name, date, amount, payment method, and cumulative calendar-year amount.
- **Medical payments:** provider invoices or statements identifying the patient, services, dates, patient responsibility, and relevant insurance explanations of benefits.
- **Proof of direct payment:** cancelled checks, credit-card receipts, ACH confirmations, or similar evidence showing payment by the donor directly to the qualifying provider.
- **Medical travel/lodging:** treatment documentation establishing medical purpose, transportation and lodging invoices, and documentation supporting the need for an accompanying person when applicable. Because §2503(e) has a separate direct-provider requirement, retain tax-advisor analysis when relying on the exclusion for travel or lodging.
- **Insurance premiums:** premium statements identifying the insured and evidence of direct payment to the insurer.
- **Form 709 history:** retain copies of prior gift-tax returns and supporting schedules so cumulative taxable gifts and prior elections can be tracked accurately.

Planning Considerations

Individuals who regularly provide financial assistance should review gifting activity periodically rather than waiting until year-end. A simple annual gifting ledger can distinguish ordinary gifts from qualified medical or educational transfers and identify potential Form 709 filing requirements.

For significant transfers, additional considerations can include prior taxable gifts, gift splitting, remaining lifetime exclusion, estate size, basis consequences of gifting property, generation-skipping transfer tax, applicable state law, and the donor's own long-term financial needs.

Key Takeaway

The $19,000 annual exclusion is not a limit on how much an individual may give. It is one component of the federal transfer-tax system. Separately, properly structured qualified medical transfers under IRC §2503(e) can provide substantial assistance without consuming the annual exclusion or lifetime basic exclusion amount. The identity of the payee, the nature of the expense, and the timing and documentation of the payment are critical.

Principal Federal Authorities

IRC §§ 102(a), 1015, 2010(c), 213(d), 2501, 2503(a), 2503(b), 2503(e), 2513, and 6019; Treas. Reg. §§ 1.213-1(e), 25.2503-3, 25.2503-6, 25.2511-2, 25.2513-1 et seq., and 25.6019-1; Rev. Proc. 2025-32.

Important Notice