

Are Weddings Taxable Gifts?

Quick-Take: Some expenses incurred with paying for a wedding may be taxable gifts.

Question: Summer is the time for weddings. Some weddings are small private affairs, while others tend to be lavish and expensive. Consider the popularity of ‘destination’ weddings and the expense associated with them, like traveling to a wedding site at an expensive Caribbean resort. A high price-tag wedding brings with it the question: “What are the gift tax consequences when ‘Dad’ springs for his daughter’s expensive wedding?” The answer is not as simple as you might think.

Basic Gift Tax Rules: A gift tax is imposed on every *transfer* of property by gift when the donor is a U.S. citizen. [IRC 2501 and 2502.] A gift is defined as the *transfer* of property by one person to another while receiving nothing, or receiving less than full value, in return. The gift tax applies whether or not the donor intends the *transfer* to be a gift. The *transfer* is considered to be a gift whether it occurs directly, or indirectly, such as providing a benefit to another individual, e.g., paying another individual’s debt. The donor is the party responsible for paying the federal gift tax on their *transfer*.

Excluded Gifts: From prior missives we know that there are a few statutory exceptions to the basic gift tax rules including: (i) unlimited direct payments of tuition to a qualified educational institution; (ii) unlimited direct payments for another’s medical expenses to the medical provider; and (iii) the ‘annual exclusion’ gift of \$19,000 per recipient (donee,) so long as that gift is a *present interest*. [IRC 2503.] However, that there is no mention of weddings in IRC 2503’s exclusions from the gift tax (nor is there for birthdays, Christmas, or graduation.)

Weddings: Most families assume that wedding expenses are not taxable gifts because ‘Dad’ (or the grandparents) derives a benefit from the blessed event, e.g., the wedding reception is for his family and friends, not just the bride and groom. This assumption is partially correct, but not always true.

Control, Obligation, and Benefit: The determination of whether wedding expenditures are taxable gifts turns on their *characterization*. How the following questions are answered leads to how an expense is characterized.

Who controls the obligation/expense?

Who signed the contracts?

Who selected the vendors?

Who had ‘final’ say over the size and composition of the guest list?

Who decided on the scale or nature of the wedding event, e.g., who decided to ‘morph’ the wedding from a simple in-town church to be a ‘destination wedding’ in Grand Cayman?

Whose decisions drove the incremental costs, moving from a ‘simple backyard wedding’ to a grand social event and party at the local country club?

Some of these expenditures will probably be taxable gifts, but others may not, depending on how the expense is characterized and documented.

Not Gifts-Hosting Costs: If many ‘excessive’ wedding expenditures can be appropriately viewed as ‘Dad’s’ own *hosting costs* rather than a gift to the wedding couple, these expenditures might not be treated by the IRS as an *indirect* gift. The more the wedding carries the appearance of a host-driven family celebration and not an expense paid on behalf of the newly-weds, the more likely it is that the expenditure will not be viewed as a taxable gift by the IRS.

Gifts- Direct Benefit: In contrast, if ‘Dad’ (and Mom) give the wedding couple \$50,000 to use as they like for their wedding and honeymoon (or to elope,) that cash is a taxable gift (but covered, in part, by the federal gift tax annual exclusion amount of \$19,000 per person.) If ‘Mom’ buys her daughter some expensive jewelry to wear with her wedding gown, jewelry which the daughter can keep and wear long after the wedding, then the gift of jewelry is a taxable gift. The cost of the wedding dress is probably a gift, even though her daughter may never wear the dress ever again. The same gift tax treatment if Mom purchases the dresses for the bridesmaids. If the wedding couple sign the multiple vendor contracts, e.g., caterers; musicians; rental agreements, but grandma pays those

contractual obligations for them as her 'contribution' to the event, then grandma's payment is an *indirect* taxable gift.

Practical Considerations: For wealthy families that are already engaged in intrafamily wealth transfers, where reliance on the federal gift tax annual exclusion may not be sufficient to avoid a gift tax analysis when it comes to paying for an expensive wedding, the characterization of expenses associated with the wedding becomes critical. Accordingly, documentation and structure will be important in order to segregate and identify expenses, including:

- How contracts are signed
- How invoices are addressed
- Who controls the decision-making
- Documentation and records that supports that some expenses are more fairly attributed to the parent hosts rather than to the wedding couple.

Large weddings often involve planners, different budgets, and multiple expense categories. This complexity can actually help since it allows the family to allocate and distinguish through their recordkeeping *hosting costs* from taxable wealth transfers. Consequently, the family needs to allocate and contemporaneously document their spending in a way that reflects economic reality.

Conclusion: Not all wedding expenditures result in taxable gifts, but it will be important to structure and document large expenses correctly to allocate them to *hosting costs* and thus avoid being classified as an *indirect* gift.

If you would like to read additional missives, [click here](#).