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one which normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on. See section 170(b)(1)(A)(ii) and the regulations thereunder. The unlimited exclusion is permitted for tuition expenses of full-time or part-time students paid directly to the qualifying educational organization providing the education. No unlimited exclusion is permitted for amounts paid for books, supplies, dormitory fees, board, or other similar expenses which do not constitute direct tuition costs.

(3) Medical expenses. For purposes of paragraph (b)(1)(ii) of this section, qualifying medical expenses are limited to those expenses defined in section 213(d) (section 213(e) prior to January 1, 1984) and include expenses incurred for the diagnosis, cure, mitigation, treatment or prevention of disease, or for the purpose of affecting any structure or function of the body or for transportation primarily for and essential to medical care. In addition, the unlimited exclusion from the gift tax includes amounts paid for medical insurance on behalf of any individual. The unlimited exclusion from the gift tax does not apply to amounts paid for medical care that are reimbursed by the donee’s insurance. Thus, if payment for a medical expense is reimbursed by the donee’s insurance company, the donor’s payment for that expense, to the extent of the reimbursed amount, is not eligible for the unlimited exclusion from the gift tax and the amount, is not eligible for the unlimited exclusion from gift tax and is treated as having been made on the date the reimbursement is received by the donee.

(c) Examples. The provisions of paragraph (b) of this section may be illustrated by the following examples.

Example (1). A made a tuition payment directly to a foreign university on behalf of B. A had no legal obligation to make this payment. The foreign university is described in section 170(b)(1)(A)(ii) of the Code. A’s tuition payment is exempt from the gift tax under section 2503(e) of the Code.

Example (2). A transfers $100,000 to a trust, the provisions of which state that the funds are to be used for tuition expenses incurred by A’s grandchildren. A’s transfer to the trust is a completed gift for Federal gift tax purposes and is not a direct transfer to an educational organization as provided in paragraph (b)(2) of this section and does not qualify for the unlimited exclusion from gift tax under section 2503(e).

Example (3). C was seriously injured in an automobile accident in 1982. D, who is unrelated to C, paid C’s various medical expenses by checks made payable to the physician. D also paid the hospital for C’s hospital bills. These medical and hospital expenses were paid in 1982 for C were medical expenses within the meaning of section 213 of the Code and since they were paid directly by D to the person rendering the medical care, they are not treated as transfers subject to the gift tax.

Example (4). Assume the same facts as in example (2) except that instead of making the payments directly to the medical service provider, D reimbursed C for the medical expenses which C had previously paid. The payments made by D to C do not qualify for the unlimited exclusion under section 2503(e) of the Code and are subject to the gift tax on the date the reimbursement is received by C to the extent the reimbursement and all other gifts from D to C during the year of the reimbursement exceed the $10,000 annual exclusion provided in section 2503(b).


§ 25.2504–1 Taxable gifts for preceding calendar periods.

(a) In order to determine the correct gift tax liability for any calendar period it is necessary to ascertain the correct amount, if any, of the aggregate sum of the taxable gifts for each of the “preceding calendar periods” (as defined in §25.2502–1(c)(2)). See paragraph (a) of §25.2502–1. The term “aggregate sum of the taxable gifts for each of the preceding calendar periods” means the correct aggregate of such gifts, not necessarily that returned for those calendar periods and in respect of which tax was paid. All transfers that constituted gifts in prior calendar periods under the laws, including the provisions of law relating to exclusions from gifts, in effect at the time the transfers were made are included in determining the amount of taxable gifts for preceding calendar periods. The deductions other than for the specific exemp-

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Internal Revenue Service, Treasury

§ 25.2504–2 Determination of gifts for preceding calendar periods.

(a) Gifts made before August 6, 1997. If the time has expired within which a tax may be assessed under chapter 12 of the Internal Revenue Code (or under corresponding provisions of prior laws) on the transfer of property by gift made during a preceding calendar period, as defined in § 25.2502–1(c)(2), and a tax has been assessed or paid for such prior calendar period, the value of the gift, for purposes of arriving at the correct amount of the taxable gifts for the preceding calendar periods (as defined in § 25.2504–1(a)), is the value used in computing the tax for the last preceding calendar period for which a tax was assessed or paid under chapter 12 of the Internal Revenue Code or the corresponding provisions of prior laws. However, this rule does not apply to adjustments involving issues other than valuation. See § 25.2504–1(d).

(b) Gifts made or section 2701(d) taxable events occurring after August 5, 1997. If the time has expired under section 6501 within which a gift tax may be assessed under chapter 12 of the Internal Revenue Code (or under corresponding provisions of prior laws) on the transfer of property by gift made during a preceding calendar period, as defined in § 25.2502–1(c)(2), or with respect to an increase in taxable gifts required under section 2701(d) and § 25.2701–4, and the gift was made, or the section 2701(d) taxable event occurred, after August 5, 1997, the amount of the taxable gift or the amount of the increase in taxable gifts, for purposes of determining the correct amount of taxable gifts for the preceding calendar periods (as defined in § 25.2504–1(a)), is the amount that is finally determined for gift tax purposes (a) of this section). However, see section 1000(e) and (g) of the 1939 Code relating to certain discretionary trusts and reciprocal trusts. However, see § 25.2504–2(b) regarding certain gifts made after August 5, 1997.