Lifetime gifting: non-charitable

Wealth Management

Often when people think of gifting, they think only of charities. However, an estate plan that incorporates giving to non-charitable beneficiaries, such as family members and other heirs, can help preserve assets and possibly reduce estate and gift taxes.

Taxes

Lifetime gifting reduces your estate by the value of the gifted assets and, as a result, transfers appreciation of the gifted assets from your estate into that of the donee. Gifting to family members may provide additional tax benefits if taxable income can be shifted to family members with lower marginal tax rates than the donor.

To the extent gifts qualify for the annual gift tax exclusion or can be sheltered by the lifetime exemption equivalent amount described below, wealth can be transferred to heirs free of any transfer taxes.

Annual gift tax exclusion gifting

Individuals may give any number of people up to $15,000 each (for 2020) in cash or assets ($30,000 if your spouse joins in making the gift) without triggering gift, estate or generation skipping taxes.

The annual gift tax exclusion applies only to "present interest" gifts; the donee must have an unrestricted right to the immediate use and enjoyment of the gift. "Future interest" gifts are generally taxable, regardless of their amount.

Gifts exceeding the annual gift tax exclusion are subject to a gift tax. The lifetime gift tax exemption offsets any such gift tax. This credit is applied to cumulative lifetime gifts to determine any gift tax liability. The lifetime gift tax exemption equivalent amount is $11.58 million (for 2020).

If you have fully utilized your lifetime gift tax exemption equivalent amount, annual lifetime giving could still benefit your estate plan via gifted amounts within the annual gift tax exclusion amount.

Lump sum gifting

You may choose to give assets or cash to a family member or other heirs in one lump sum. If the gift is within the lifetime gift tax exemption equivalent amount, you will pay no gift tax, assuming you have not fully used your lifetime gift tax exemption of $11.58 million (for 2020).

Exclusions for medical and tuition payments

Current law allows you an unlimited exclusion for certain tuition and medical payments made on behalf of others. To qualify for this exclusion, you must make the payments directly to the educational institution or medical facility. Payments for medical insurance also qualify for the medical exclusion. Payments for dormitory fees, books, supplies and similar school expenses do not qualify for the tuition exclusion.

Gifting to minors

Transferring assets to minors can help to ensure that your children and grandchildren have the financial resources needed to go to college, buy their first home, start a business, or begin their own investment and estate planning.

Many people are uncomfortable giving large sums of cash or assets to their children or grandchildren outright. The following are a few methods for gifting to minors:

IRC Section 2503(c) trusts

Also known as gifts to minors trusts, gifts to these trusts qualify for the annual gift tax exclusion. With gifts to minors trusts, you direct your trustee to use the trust income and assets for the child's benefit—for instance to finance a college education—until the child reaches age 21. The child must then be given the right to all the trust assets and income.

UTMA/UGMA accounts

If available under the laws of your state, Unified Gifts to Minors Act accounts or Uniform Transfers to Minors Act accounts provide that a custodian hold the property which can be used for the support, health, maintenance and education of a child until attaining the age of majority for the state in question. At the age of majority, the child is entitled to the assets in the account. This is also considered a present interest gift and is eligible for the annual gift tax exclusion.

Section 529 college savings plans

Also known as Qualified State Tuition Programs, Section 529 Plans are state-sponsored investment programs designed to help save for a child's higher education. Each state develops its own program. 529 plans allow you to gift up to $75,000 (for 2020) in the first year, tax-free as long as the contribution is treated as a series of five equal annual gift tax exclusion gifts.

Contact your financial advisor today to discuss the benefits of lifetime non-charitable giving.

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For more information regarding college savings plans, please visit www.collegesavings.org. Participation in a 529 Plan does not guarantee the investment return on contributions, if any, will be adequate to cover future tuition and other higher education expenses. State programs vary, therefore you should carefully review individual program documents before investing or sending money. Federal income tax on the earnings and a 10% penalty on distributions for non-qualified expenses may apply.

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