



Giftgiving: A Key Strategy for Efficient Wealth Transfer and Tax Planning

Giftgiving is a powerful and flexible tool for transferring wealth, providing potentially significant tax advantages and helping individuals reduce the size of their taxable estates. By leveraging the annual gift tax exclusion and lifetime gift tax exemption, families can pass on wealth to the next generation while minimizing gift and estate taxes. Proper giftgiving strategies not only help preserve wealth but also allow for more control over how and when assets are distributed.

This whitepaper explores the benefits of giftgiving, key considerations for implementing a giftgiving strategy, and the types of assets that are commonly gifted as part of a comprehensive estate plan.

Key Benefits of Giftgiving

- **Reduction of Taxable Estate:** Giftgiving allows individuals to remove assets from their taxable estate, which can significantly reduce estate taxes at death. By gradually transferring wealth to family members during their lifetime, individuals can decrease the value of their estate, minimizing potential tax liabilities for heirs.
- **Use of Annual Gift Tax Exclusion:** The IRS allows individuals to gift up to \$18,000 per recipient each year (2024 limit) without triggering gift tax or using their lifetime gift tax exemption. For married couples, this amount doubles to \$36,000 per recipient. By making regular annual gifts, families can transfer substantial wealth over time without incurring gift taxes.
- **Leverage of Lifetime Gift Tax Exemption:** In addition to the annual gift tax exclusion, individuals can take advantage of the lifetime gift tax exemption, which is currently \$13.61 million per person (2024 limit). By making larger gifts, individuals can significantly reduce the size of their estate, transferring substantial assets to heirs without paying gift taxes.
- **Tax-Free Growth of Gifted Assets:** Once assets are gifted, any future appreciation occurs outside the donor's estate, ensuring that the growth is not subject to estate taxes. This makes giftgiving particularly advantageous for assets expected to appreciate significantly, such as real estate, stocks, or business interests.
- **Control Over Timing and Distribution:** Giftgiving allows individuals to control the timing and manner of wealth transfer. Whether giftgiving during one's lifetime or through a structured plan, individuals can provide for children, grandchildren, or other beneficiaries while ensuring assets are distributed according to their wishes.





Key Considerations for Gifting

- **Annual Gift Tax Exclusion:** The annual gift tax exclusion allows individuals to gift up to \$18,000 (as of 2024) per recipient each year without reducing their lifetime gift tax exemption. This exclusion is a key part of many gifting strategies, allowing families to transfer significant wealth over time.
 - **Example:** A married couple can gift \$36,000 per year to each child, grandchild, or other beneficiary without using their lifetime exemption. For a family with two children and four grandchildren, this could amount to \$216,000 in tax-free gifts each year.
- **Lifetime Gift Tax Exemption:** In addition to the annual exclusion, individuals can make larger gifts using their lifetime gift tax exemption, which is currently \$13.61 million per person (2024 limit). Gifts above the annual exclusion reduce the lifetime exemption, and any gifts that exceed the exemption may be subject to gift taxes.
 - **Example:** An individual can gift a \$5 million business interest to their children, using a portion of their lifetime gift tax exemption to avoid paying gift taxes.
- **Impact on Estate Tax:** Gifting reduces the size of the donor's taxable estate, which can significantly reduce estate taxes at death. However, if the lifetime exemption is used for gifts, it will reduce the amount available to shelter the estate from estate taxes.
 - **Example:** If an individual uses \$5 million of their lifetime exemption for gifting, they will have \$8.61 million remaining to shelter their estate from estate taxes (assuming the 2024 exemption amounts).
- **Tax Basis Considerations:** When assets are gifted, the recipient inherits the donor's cost basis. This means that if the recipient later sells the gifted assets, they may be subject to capital gains taxes based on the original purchase price. This is different from inherited assets, which receive a step-up in basis to their fair market value at the time of the donor's death.
 - **Example:** If a parent gifts stock with a cost basis of \$100,000 and a current value of \$500,000 to a child, the child assumes the parent's \$100,000 basis. If the child later sells the stock for \$600,000, they would owe capital gains tax on \$500,000.





- **Control Through Trusts:** For individuals who wish to retain some control over how and when gifts are distributed, trusts can be an effective solution. Trusts allow the grantor to set specific conditions for distributions, such as age restrictions or usage requirements, ensuring that gifts are used responsibly.
 - **Example:** A grandparent may establish a trust for a grandchild's education, with distributions limited to tuition and related expenses until the grandchild reaches a certain age.

Common Gifting Strategies

- **Direct Gifts of Cash or Property:** Direct gifts are the simplest and most common form of gifting. Individuals can gift cash, securities, or other property directly to beneficiaries, taking advantage of the annual gift tax exclusion and lifetime exemption. This method allows for immediate transfer of assets and is straightforward to implement.
- **Gifts of Appreciated Securities:** Gifting appreciated securities, such as stocks, can be a tax-efficient strategy. The donor avoids realizing capital gains on the gifted securities, and the recipient takes over the asset with the donor's cost basis. This is particularly effective when gifting to beneficiaries in lower tax brackets, who may pay lower capital gains taxes upon selling the securities.
 - **Example:** A parent gifts \$50,000 in appreciated stock to a child. The parent avoids capital gains taxes, and the child, who is in a lower tax bracket, can sell the stock with a lower tax liability.
- **Gifting Interests in Family Businesses:** For families with closely held businesses, gifting business interests can be a valuable strategy for transferring ownership to the next generation while taking advantage of valuation discounts. By applying discounts for lack of control and marketability, the value of the gift is reduced, minimizing gift taxes.
 - **Example:** A parent gifts a minority interest in a family business to their children, applying a 25% valuation discount for lack of control. This reduces the taxable value of the gift, allowing the parent to transfer more wealth within the gift tax limits.
- **Gifting Real Estate:** Real estate can be gifted directly to family members or transferred into a trust. Gifting real estate allows families to transfer appreciating assets and remove them from the taxable estate. It's important to consider the recipient's ability to manage the property and pay associated taxes and expenses.
 - **Example:** A parent gifts a vacation home to their children, removing the property from their taxable estate and reducing future estate tax liability.





- **529 College Savings Plan Contributions:** Contributions to a 529 college savings plan are an excellent way to gift funds for education while taking advantage of tax benefits. Contributions qualify for the annual gift tax exclusion, and individuals can make five years' worth of contributions in a single year without incurring gift taxes (up to \$90,000 for single filers and \$180,000 for married couples in 2024).
 - **Example:** A grandparent contributes \$90,000 to a grandchild's 529 plan in a single year, utilizing the five-year election and avoiding gift taxes while growing the funds tax-free for educational purposes.

Conclusion

Gift-giving is an essential component of an effective estate plan, offering a flexible and tax-efficient way to transfer wealth to future generations. By using the annual gift tax exclusion, leveraging the lifetime gift tax exemption, and strategically selecting assets to gift, individuals can significantly reduce their taxable estates while benefiting their loved ones. For families looking to preserve wealth and minimize taxes, a well-structured gifting strategy can be a critical tool for ensuring long-term financial security. You should consult with a qualified tax professional before engaging in any gifting strategies.

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