Wednesday, July 13, 2022

Parents have a number of reasons for making gifts to children. First, a parent should have sufficient resources for retirement and for long-term care needs before making substantial gifts. Once you have acquired a reasonable level of security, you might consider making gifts to children.

Your gifts to children will enable two types of education. First, your children will have the ability to learn to manage and hopefully invest the gifts to start building their estate. In addition, you will be able to understand better how a child will manage or use the gift property.

Finally, if you have a larger estate, the use of annual gift exclusions can be a very good strategy to save potential future estate taxes.

There are Seven Different Ways That Gifts Can be Made to Children

1. Cash Gifts
You can simply write a check to children. Some parents give an amount up to the annual gift exclusion ($16,000 per child, per parent in 2022, and potentially larger amounts in future years). This is a very easy and convenient way to make a gift.

However, there are some concerns about cash gifts that you should understand. When gifts to children are in cash, they are quite frequently spent rather than being invested. If the regular gifts are made over a period of years, it may encourage your children to live at a higher than normal lifestyle. In many cases the child will benefit more from a gift of a property investment, rather than a gift of cash.

2. Stock Gifts

While it is possible for you to hold stock certificates, the overwhelming majority of stock is now held in a street account by a brokerage firm. The easiest method for transfer of stock is for the child to create an account with the same firm. The brokerage firm has the documentation necessary to make a transfer from your account to your child's account.

With a property gift, you will need to know the gift value. Because public stock is valued at the mean between the high and low prices on the date of the transfer, the value is quite easy to determine. Most parents will make stock gifts to children with value below the annual exclusion amount. Each parent will have one annual exclusion for each child, so the total allowable tax-free gift each year for a couple is double the exclusion. In addition, larger gifts can be made by filing an IRS Form 709 Gift Tax Return and using part of your lifetime gift exemption.

If stock or other appreciated property is transferred to children by gift, they take the same cost basis as the parents. Although the stock may be appreciated, there is no capital gains tax payable when the stock is transferred. However, the child has the same basis as the parent. If the stock is sold, the child will pay capital gains tax on the increase in value.

The dividends or income from the stock will be distributed to the child. If he or she is under age 19 or is a student under age 24, then in most cases the income will be taxed to the child at trust and estate tax rates. You may have heard this concept called the "kiddie" tax.

3. Mutual Funds

Many parents own mutual funds that are managed by a financial services firm. These may be a very good candidate for a gift to children. You can create a new mutual fund account and use the appropriate form from the financial services company to make a gift to the child. If the mutual fund is appreciated, then the potential capital gain and income tax rules are similar to those described for the gifts of stock.

To continue reading the other 4 tips, click **HERE**.

For more information and our step-by-step estate planning guide please give us a call at 718-965-7375 x1616 or reply to this e-mail. To help ensure your will and estate plan reflects your desires, you may also view some helpful videos on our planned giving website –www.cfbqlegacy.org.

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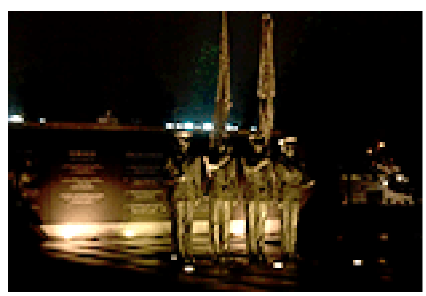

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