

Lifetime Non-charitable Gifting

When it comes to gifts and taxes we typically think of charitable donations, however there are a variety of reasons, tax and nontax, which make lifetime non-charitable gifting attractive.

What are the nontax advantages of making lifetime gifts?

- You see the recipient enjoy your generosity.
- Gifts to your children can give them financial security, independence or the ability to enjoy an enhanced quality of life.
- You are relieved of property management worries. This may be important if you are an older person.
- You control the distribution of your property. Lifetime gifts provide the most control over how your property is distributed.
- You keep the property out of probate. Lifetime gifts can reduce probate and administration costs. Additionally, removing property from your probate estate protects it from estate creditors or unhappy heirs.
- You keep the gift private. Lifetime gifts are not open to public scrutiny. In contrast, a will becomes a public document that is available to anyone who wishes to see it.

What are the tax advantages of making lifetime gifts?

- Future appreciation of your estate can be eliminated. Transfer taxes are based on the value of the property transferred.
- Qualified transfers are exempt from transfer taxes. Qualified transfers are payments you make on behalf of someone else, either as tuition to an educational institution or medical expenses to a medical care provider. This allows you to help your children or grandchildren through college or to help your elderly parents get proper medical care.
- Annual gift tax exclusion. The annual gift tax exclusion allows you to give up to \$13,000 (in 2009 and 2010) per recipient without incurring transfer tax. If you are married, gift splitting can double the annual gift tax exclusion.
- Shift income to a lower income tax bracket. Income-producing assets can be distributed among several family members to reduce the overall tax cost.

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- Shift capital gains. Significantly appreciated property can be gifted to a family member who has losses to offset the gain.

There are many factors to consider when evaluating lifetime gifts: 1) whom you should make a gift to (spouse, children, grandchildren, charities etc); (2) how the gift should be made (outright, in trust, as a loan or by a change in titling of property); (3) which property to gift (cash, real estate, appreciated securities, securities declined in value, etc.) and (4) the timing of the gift.

Year-end planning is a good time to consider these options especially if you want to take advantage of the annual exclusion, which is a use it or lose it tax benefit.

Please contact a Tonneson + Co tax professional if you have questions about how a carefully planned gifting strategy can lower your overall tax costs.