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WEALTH ADVISORS

Year-End Gifting Q&A

Year-End Is The Perfect Time To Consider Gifting

As you approach year-end, consider various gifting strategies to help minimize your tax burden. From gifting to family members to setting up a charitable donor-advised fund, you can leave a legacy for your heirs and favorite nonprofits.

Q: As we approach year-end, what should clients know about gifting to children or grandchildren?

A: For those who have the financial ability and desire to make lifetime gifts to family members, you should consider doing it annually. In 2021, the annual gift tax exclusion allows you to give up to $15,000 ($30,000 for married couples).[1] This is the amount you can gift to an individual without being subject to gift taxes. Keep in mind, gifting decisions should be made in conjunction with additional wealth transfer or estate planning considerations.

Q: What types of assets are better to gift?

A: Gifting an appreciated stock or mutual fund can be a great way to maximize tax benefits. Many of our clients face combined long-term capital gains tax rates of close to 30% (when you include federal, state income taxes, and the health care surtax). At the same time, recent college grads often have a long-term capital gain rate of 0% on most investments until they start a job where they earn more than $40,400 in 2021.[2] That represents a great opportunity to maximize a gift.

Q: Can you give an example of how that would work?

A: Sure, let's assume a married couple is wanting to provide the maximum annual gift exclusion and make a gift to their daughter who's a recent college graduate. To give cash to her, let's say they need to liquidate close to $40,000 in very low-basis stock to net a $30,000 gift after taxes. Alternatively, consider gifting $30,000 worth of stock ($15,000 from each parent) to the daughter who could turn around and sell it with little or no tax consequences since her income is minimal. Highly appreciated investments with a low original value (cost basis) can be a very effective gifting strategy.

Q: What should clients know about charitable giving?

A: If you are going to have an above-average tax burden in 2021, and you are charitably inclined, you may want to consider using a donor-advised fund (DAF). A donor-advised fund will allow you to make a large gift now and take the tax deduction in this calendar year, while deferring the decision on which charity will receive the funds. Because you receive an upfront tax deduction when you make the gift to a donor-advised fund, it can be a straightforward, tax-efficient method of charitable planning without forcing you to make the ultimate determination on which organization will receive the funds at this time.

The other key thing to know about charitable planning is that it is almost always better to gift appreciated assets rather than cash. Since you are able to avoid paying tax on the unrealized gain of the donated property, this can be a great way to maximize your gifting while minimizing your taxes.

For more information visit: marinerwealthadvisors.com

1 "What's New- Estate and Gift Tax," irs.gov

2 "What Is the Long-term Capital Gains Tax?" bankrate.com

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