

Making Lifetime Gifts

For many people, sharing their financial success with those they love brings a strong sense of satisfaction. Whether it's paying for a child's higher education, helping a child buy a home or start a business, or providing a supplementary income during a child's career start-up years, making gifts to children or grandchildren can be very rewarding. Lifetime giving is also a powerful estate planning technique.

Benefits of Lifetime Giving

A well-planned program of lifetime gifts can save estate and gift taxes, preserve more of your assets for your family and other heirs, and help ensure that your property goes to the people you want to have it.

The nature of your gift — and your personal planning objectives — will determine the right gift-giving approach for you. As you develop your gift-giving strategies, you'll want to keep these important tax-related points in mind:

Gift taxes. A federal unified tax credit allows you to transfer up to \$5.12 million of assets during your life without incurring gift taxes. However, under the federal transfer-tax system, gift and estate taxes are related. Using your unified credit during your lifetime will essentially reduce the amount you can transfer to your family or other loved ones estate-tax free at your death.

There is a way to make lifetime gifts without incurring a gift-tax liability or using any of your unified credit. The federal tax law provides a gift-tax annual exclusion that allows you to give up to \$13,000 each year to as many individuals as you want. If your spouse joins in the gift, you can give up to \$26,000 annually to each individual. Over a period of years, a series of tax-free gifts using the exclusion can add up to a significant amount. (The \$13,000/\$26,000 figures are for 2012. The IRS periodically adjusts the amount of the gift-tax annual exclusion for inflation.)

The tax law also allows you to pay another person's medical expenses or school tuition on a gift-tax-free basis. You must pay the medical provider or the educational institution directly. There are no restrictions on the amount of expenses you can pay, and your payments will not count against the annual exclusion limit.

Estate taxes. When you make lifetime gifts, you remove the gift property (along with any future appreciation in the property's

value) from your estate for estate-tax purposes. Reducing the value of your taxable estate could prove to be very beneficial.

Income taxes. If you give assets to a child, it may result in an overall family tax savings. However, recent tax law changes have made it more difficult to shift income to children in lower tax brackets. While a child is under age 18, the child's unearned (investment) income above \$1,900 is taxed to the child at the parents' highest marginal tax rate. (The \$1,900 figure is for 2012 and is subject to annual inflation adjustments.) This "kiddie tax" provision can also apply to an older child — one who has reached age 18 or who is a full-time student age 19-23 — if the child's earned income doesn't exceed one half of his or her support. Once a child reaches age 24, however, the kiddie tax no longer applies.

Your Gift-giving Options

If you decide you want to make a gift, there are several ways you might go about it.

Outright gift. You can give money, securities, or other property directly. You'll want to make sure the family member or friend is old enough under state law and mature enough to handle the gift property.

Custodial account. If your gift is to a young child, an adult is required to oversee the gift assets for the child. You choose the custodian. It can be yourself, the child's parent or guardian, a friend, or anyone else you choose. The custodian manages the

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account assets for the benefit of the child until he or she reaches the age of legal majority — either 18 or 21, depending on state law.

Trusts. Young children and even young adults typically aren't prepared to handle large sums of money. Making your gift through a trust protects your gift and can provide professional asset management.

Giving a gift through a trust allows you to make certain that the purpose of the gift is fulfilled and guards against improper handling of the gift. When you create a trust, you set the conditions for the gift. For example, you can specify:

- How long you want the trust to continue
- How much trust income will be paid to the beneficiary
- How frequently the income will be paid
- When and how the trust assets are to be distributed

When a trust is set up for a minor child, some of the flexibility normally found with a trust may be restricted if the trust is to provide tax benefits. Still, even with the tax law restrictions, a trust is often the gift-giving method of choice.

Making lifetime gifts is a valuable planning strategy and a fulfilling personal experience. Your legal and financial advisors can provide more information about lifetime gifts.

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15 Corporate Circle, Albany, NY 12203
800-525-4237 • Fax 518-862-3355
www.newkirk.com • info@newkirk.com

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