American Heritage Financial

IT’S GIFT-GIVING SEASON UNTIL DECEMBER 31

Once the holidays have passed and the decorations are put away, you may think that the gift-giving season has come to a close. Before you settle back into your routine, perhaps you will want to consider the advantages of an investment-related gifting strategy. Now is a good time to weigh your options and explore the benefits of using lifetime gifts to pass on some of your assets to your beneficiaries.

During your lifetime and at the time of your death, federal gift and estate taxes, respectively, can apply to the transfer of property to your heirs. However, there are exclusions for these rules, and it’s important to think about how these could benefit you when making gifts. Let’s take a closer look at the rules are and how they are applied.

For starters, the annual gift tax exclusion for 2013 allows you to transfer up to $14,000 per recipient, or $28,000 for a married couple, per year, without having to pay any federal gift tax. The government sets no limit on who or how many people you can gift.

The limit refers to the annual gift tax exclusion but does not prohibit you from giving more if you choose. There is a lifetime limit of how much you can transfer in gifts plus through your estate and that amount is $5.25 million as of 2013 (it is adjusted annually for inflation). Gift taxes are “unified” with estate taxes in the sense that annual gifts over the $14,000 amount will be tallied for a future reduction in the $5.25 million you can transfer estate tax free at death.

The $14,000 per year per person**,** along with the $5.25 million lifetime limit**,** open**s** a lot of doors for most people to transfer a portion of their wealth, save **future** taxes and benefit children or grandchildren. As mentioned above, amounts over **$**14,000 per year to individuals will reduce your $5.25 million lifetime exclusion, **but** direct payment of tuition and gifts to qualifying charities are excluded from the annual limit.

To really see the benefit of lifetime gifting, keep in mind the future appreciation that could result from your gift. For example, a $14,000 gift could appreciate to $28,000 over 10 years, assuming a 7.2% return. If your child received a $28,000 inheritance from your estate, they could end up with just $16,800 after paying estate taxes (assuming a 40% tax rate).

Portability is another gift/estate tax feature which eases transfers. Effective since January 1, 2011, portability allows a surviving spouse to use the decedent spouse’s unused lifetime exemption in his or her own estate.

These basic guidelines can help many individuals and couples transfer wealth with minimal or no taxes, but those with estates approaching $5 million (remember it likely will continue to grow – even in retirement) should seek professional estate planning help. There are numerous other tools which, along with good planning, can help keep taxes to a minimum. Some of these strategies will include trusts, generation skipping strategies, gifts of appreciated assets and gifts, such as tuition, which are excluded.

Final point; President Obama has proposed closing various estate planning loopholes since early in his first term. None of his proposals were included in American Taxpayer Relief Act of 2012 (ATRA), but may be in play during the next round of tax policy debates.

Interestingly, perhaps the largest estate planning loophole of them all looks as if it will remain available indefinitely. As described here, when estate and gift taxes are unified, gifting assets during one's lifetime instead of waiting until after death can save families significant taxes. ATRA unifies estate and gift taxes permanently (or at least until a President and Congress decide to make a change).

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