

Should Parents Wait to Transfer Wealth to Their Heirs?

Many families have plans to give their children and grandchildren financial gifts when they die, but it might make sense to gift earlier. Making financial gifts during your lifetime can significantly impact their lives, sometimes when they need it most. It also provides you with the benefit of seeing your loved ones enjoy your gifts.

Perhaps your plan is more financially focused. If you believe your estate might owe estate tax, gifting assets to your heirs throughout your life, rather than waiting until death, can be a powerful way to reduce the amount of taxes ultimately paid by your estate.

In 2021, an individual can transfer a total of \$11.7 million at death or during their lifetime free from federal gift and estate taxes. Together, a married couple can transfer twice that amount—\$23.4 million—free of tax. The current tax law allows you to give certain gifts that don't count against your gift and estate tax exemption amount. They also don't require filing a gift tax return, so maximizing these "free" gifts is typically the first place to start with lifetime gifting.

Annual Exclusion Gifts: The annual exclusion allows you to make tax-free gifts up to \$15,000 per donor/recipient to an unlimited number of individuals each year.

Medical and Educational Gifts: Another way to make tax-free gifts is to make a direct payment for a child's or grandchild's medical or educational expenses. Payments made directly to a medical services provider (for example, doctor, hospital) or an educational institution for tuition aren't treated as taxable gifts.

529 College Savings Plans: A 529 College Savings Plan is like a retirement plan for education. The main advantage of a 529 plan is that the money grows in your account free of federal income tax. Under federal tax rules, the funds must be used for qualified higher-education expenses, such as tuition, books, and room and board.

Trusts: There is no restriction on the type of property that can be held in a trust. And trusts offer a great deal of flexibility as to when a child or grandchild will ultimately receive the trust benefits. Assets held in trust can be shielded from creditors and arguably provide the best way to ensure a family's wealth remains with the family.

Creating a strategy that's unique to your situation requires planning. Call us today at 435-723-3370, and let's work out an estate plan for you and your heirs.

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