

Gift the Wealthy Way

Sure, wealthy families engage in complex estate planning techniques to minimize estate tax, but they don't overlook simple opportunities. Here are two popular and simple techniques to reduce your estate and some important pitfalls to avoid.

Making Annual Exclusion Gifts

The IRS didn't want to be bothered with tracking "small" gifts so it excluded the tracking and taxing of qualifying gifts under a certain threshold called the annual exclusion (\$14,000 in 2014). What did wealthy families do with this exclusion? They used it as an effective tool to slowly transfer wealth to their loved ones. Also note that your loved ones don't recognize the gift as income, a common misconception.



Using the annual exclusion, grandparents with four children and six grandchildren might between them transfer \$280,000 per year to their family. Note that while these gifts are typically made between family members the gift can be made to anyone. The most common way individuals make annual exclusion gifts are by giving their loved ones checks, but you can also gift securities, gift to a new or existing 529 college savings account or forgive some debt a loved one might owe to you to take advantage of this exclusion. Over years this systematic gifting can drastically reduce your estate and maximize the tax-free transfer of wealth to your loved ones.



Caution – *Don't wait until the last few days of the year to make your gift as your loved ones should cash their checks, receive their stock or receive the confirmation of debt forgiveness before year end or the gift will not count for 2014 and you forever lose your ability to gift for the year. Be mindful too that the annual exclusion is cumulative so you need to consider the value of all transfers you made during the year to your loved one when looking at your ability to give \$14,000.*

Paying Education and Medical Expenses for the Benefit of Loved Ones

Annual exclusion gifts aren't the only simple estate tax technique wealthy individuals use, they also frequently whittle away at their estate by paying their loved ones' qualified education expenses (generally tuition, books and fees) and medical expenses (generally doctor and hospital expenses or insurance premiums). There's no limit to the amount of qualified education or medical expenses that you can pay and the payment of these expenses does not count against the \$14,000 annual exclusion gift you can make to benefit the same recipient. That means that grandparents in the above example making \$280K in annual exclusion gifts might also easily pay \$100,000 in tuition costs for the six grandchildren (some in college, some in private middle school) and another \$100,000 in medical expenses between all ten loved ones, easily resulting in an annual gift-tax free wealth transfer of over \$450,000 per year! As with the annual exclusion gift, while the payments are typically made for the benefit of family members, the exclusion applies for payments you make for anyone, no relation required.



Caution - *Be sure you make your check payable directly to the health care provider or educational institution. Also be sure to check with your tax advisor that the payments you intend to make are in fact qualified educational expenses or qualified medical expenses.*

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