

GIFT THE WEALTHY WAY

Many families routinely gift assets to heirs, and some plan to leave assets to heirs above the amount the government allows to pass free of gift or estate tax. When it comes to estate planning, there are both simple and complex ways to reduce your estate. Here are a few simple gifting ideas to consider.

Making Annual Exclusion Gifts

The IRS agrees that tracking “small” gifts is too much of a hassle, so they elected to create annual exclusion gifts. This exclusion allows \$19,000 (in 2026) per recipient per year to be given away in cash or property value without (i) reducing your ability to shield future wealth transfers from tax using your lifetime exemption and (ii) having to file a gift tax return. This is an incredibly effective tool for families to transfer wealth to their loved ones without being penalized with a gift or estate tax (or the hassle of filing a return). In addition, your loved ones don’t have to recognize the gift as income on their tax returns, a common misconception.



As an example, a couple with four children and six grandchildren may transfer a total of \$380,000 in 2026 to these ten family members. The couple can give each family member a check, securities, or fund a new or existing 529 college savings plan. Keep in mind, while this is an example of a family member bestowing gifts to their children and grandchildren, an annual exclusion gift can be made to *any* individual, not just family members.

⚠ Caution – *Loved ones should cash their checks, receive their stock, or certify that a 529 plan provider has deposited the gifted funds before year-end, or the gift will not count for that tax year. Be mindful that the annual exclusion is cumulative, so you need to consider the value of all transfers you make during the year to each recipient when looking at your ability to give \$19,000.*

Give the Gift of Compounding - for College

Get started growing tax-free savings for college by funding a 529 plan. The couple in our example above could use their annual exclusion gift to contribute to a 529 college savings plan or take advantage of the special rule that allows up to five years of annual exclusion gifts to be lumped together to kick-start or significantly boost a loved one’s college savings. These college savings plans are great because they grow tax-deferred, and distributions used for qualified tuition and fees may be pulled from the 529 plan income tax-free. However, any gains on contributions not used for qualified higher education expenses are subject to income taxes and a 10% penalty, so be sure not to overfund the 529 plan with more than you think your loved one will need for college.ⁱ

Give the Gift of Compounding - for Retirement

The couple in our example could alternatively use their annual exclusion gift to kick-start a child, grandchild, or other loved one’s retirement by contributing to a new or existing Roth IRA. If your loved one is working, consider the benefits of a Roth IRA for retirement. Roth IRAs grow tax-deferred, and qualified distributions after age 59½ can be made income tax-free. The retirement savings are maximized with a Roth IRA created early in life, given the additional years of tax-deferred growth. In 2026, your loved ones can use up to \$7,500 of the annual exclusion gift you make to them to fund a Roth IRA, reduced by any other contributions to an IRA he or she may have made that year. To be eligible, your loved one must have earned the same amount you gift to him or her to make this contribution; the contribution will be subject to a phase out if he or she earned more than \$153,000 (single 2026) or if married filing jointly, \$129,000 if covered by a retirement plan at work, or \$242,000 if not (2026).

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Stuff Their Stocking

Make someone a part owner in a company that they love. For younger loved ones, it could be an educational exercise, teaching them about the stock market and public companies. Stock makes a great gift because (1) it allows you to reduce your estate by the fair market value of the stock (up to \$19,000 in 2026), (2) it reduces your future potential income tax liability as any embedded gain in the position is not realized upon transfer (but rather transfers to your loved one), and (3) it jumpstarts investing for your loved one. For younger loved ones, it could be an educational exercise, teaching them about the stock market and public companies. Giving shares of stock is also a great way to reduce your exposure in a concentrated position, remove future appreciation from your estate, and free up cash for other liquidity needs. If you want to purchase new stock for someone, physical shares of stock can be purchased online through websites such as [Giveashare.com](https://www.giveashare.com). If the site doesn't have what you are looking for, consider buying (or giving your own shares) through your brokerage firm. Over the years, this systematic gift-giving can drastically reduce an estate and maximize the tax-free transfer of wealth.

Spread the Wealth

Ask your loved ones how they would best like to make a difference in the world and donate to a charity in their name. If you have a donor-advised fund, consider giving a "Gift for Giving" that allows them to give an amount you determine from your donor-advised fund to a charity of their choosing. For more information on the best ways to give to charity, read our piece on [Thoughtful Charitable Giving](#).

Paying Education and Medical Expenses for the Benefit of Loved Ones

Annual exclusion gifts are not the only option when it comes to strategic estate tax techniques. You can also chip away at your estate by covering a loved one's qualified educational and medical expenses. There is no limit to the amount of qualified education or medical expenses you can pay, and these payments do not count against the \$19,000 annual exclusion gift you may make to the same individual. Qualified education expenses include tuition, books, and fees; qualified medical expenses include doctor visits, hospital visits, and even insurance premiums.

Let's go back to the couple utilizing annual exclusion gifts in the example above. They plan to give \$380,000 in annual exclusion gifts to their children and grandchildren. On top of the planned \$380,000 in gifts, they can also easily pay \$100,000 in tuition costs for their grandchildren and perhaps another \$100,000 in medical expenses within the family, making their annual wealth transfer over \$580,000 a year, tax-free!

⚠ Caution - If you are going to pay for education or medical expenses, be sure to make your check payable directly to the health care provider or educational institution. You should also confirm with your tax advisor that the payments you intend to make are, in fact, qualified educational or medical expenses.

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¹ While recent legislation has made it possible to rollover up to \$35,000 of 529 plan assets (in \$7,000 inflation-adjusted annual increments) to a Roth IRA for the 529 plan's beneficiary, we still recommend against overfunding a 529 plan as earned income and timing limitations may restrict the rollover options.