Gifting for Individuals

Gifting represents the opportunity to transfer your assets during your lifetime and potentially reduce your taxable estate. When you gift, you can enjoy the benefit of seeing your gift in action, and you may also benefit from tax advantages. For many people, witnessing the impact of their gift is important. Making gifts to family members or others while you're alive lets you do just that. Before you implement any gifting strategy, you should consult your legal and/or tax professionals to evaluate how this may affect your estate plan and tax situation.

Benefits of a gifting strategy

Reducing your taxable estate used to be as simple as writing a check. However, for many individuals with substantial estates, this way of gifting simply doesn't meet their tax-saving or estate-planning needs. They're turning to more sophisticated gifting techniques that offer greater tax advantages or the opportunity to realize other benefits, such as:

- Providing continual income to heirs
- Avoiding capital gains tax on appreciated assets
- Reducing potential estate taxes
- Transferring assets at a discounted value

Gifting limits

Annual: You can gift up to $16,000 per year to any individual tax-free ($32,000 to an individual if you and your spouse combine gifts). This amount is known as your annual gift tax exclusion amount.

Cumulative: Under current law, you may gift up to $12.06 million during your lifetime above the annual gift tax exclusion amount. If you reach the limit during 2022, any additional gifts will trigger gift taxes, for which you will be responsible. It's important to remember that this is a unified lifetime gifting **and** estate tax exclusion. Any amount of the exclusion used during your lifetime towards gift taxes reduces (dollar-for-dollar) the amount of your available estate tax exclusion.

Choosing a gifting strategy that's right for you

Whatever your reasons for gifting, you have a variety of strategies available to help you distribute your assets to your family and other beneficiaries.

Gifting appreciated assets – By gifting appreciated assets, such as stocks or mutual funds, that have grown in value and have a very low cost basis (i.e., generally the original price you paid for the stock), you may be able to transfer an appreciated asset to your beneficiary without an immediate income tax consequence. By gifting rather than selling appreciated assets and gifting cash, you avoid paying capital gains tax on the difference between what you could have sold the asset for and what you paid for it (generally as your cost basis).

Gifting appreciated assets generally removes them from your estate for estate tax purposes. However, if the gift is more than $16,000 ($32,000 for married couples) per year, you will need to use a portion of the $12.06 million exclusion. And keep in mind that if you gift appreciated assets while you're alive, the beneficiary assumes your cost basis. As a result, if you gift an appreciated asset and the beneficiary sells it, he or she generally will be subject to the capital gains tax.

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Education and medical contributions – You can bolster your annual gifting by paying amounts directly to a qualified educational institution for tuition or a medical provider for qualifying medical expenses. These direct payments are not considered taxable gifts. As a result, they're not included as part of your $16,000 annual exclusion amount.

If you want to help your children, grandchildren or other individuals pay for education expenses, consider opening and contributing to a 529 savings plan. You can gift up to $16,000 (your annual exclusion amount) per year tax free. In addition, these plans let you make up to five years' worth of annual exclusion gifts [$80,000 ($16,000 x 5 years) for you; $160,000 combined from you and your spouse] in one year per individual. However, once you contribute the maximum amount using the five-year acceleration rule, you cannot make additional annual exclusion gifts to that individual for those five years without incurring gift tax consequences.

Incorporating gifting into your overall estate plan

Whether you plan to gift to provide for loved ones or to lower your taxable estate, you have many options. Your attorney and your tax professional can help you evaluate your tax and legal options so you can choose the strategic approach that best fits into your overall estate plan. Then your Edward Jones financial advisor can help implement any changes to your financial strategies and financial goals.

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