

Giftting Strategies

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Giftting during your lifetime is a terrific way to reduce estate taxes and transfer assets to the next generation tax-free. The Tax Cuts and Jobs Act of 2017 doubled the estate tax exemption, offering an opportunity for high-net-worth families to transfer more wealth tax-free before 2026. We recommend reviewing your wealth transfer and giftting strategy within the context of your financial plan to ensure you are managing taxes efficiently while providing for your own cash flow and retirement goals.

Lifetime Estate & Gift Tax Exemption

Currently, you can gift \$12.92 million (\$25.84m per married couple) during your lifetime or at death before you are subject to the gift tax. [1]Any amount over this exemption is taxed at 40%. Gifts include cash, securities, real property, no-interest or low-interest loans, jewelry, and vehicles. Transfers must be complete and irrevocable, meaning the grantor has no further control over the assets.

In addition to this lifetime exemption, individuals can give \$17,000 per year per beneficiary without having to add to the lifetime gift exemption amount and file a Gift Tax form. Beneficiaries can be family, friends, or anyone you want to give to. No tax is owed on the transfer, and the beneficiary also pays no tax. If you have a large estate maximizing annual giftting can help shift assets from your estate without counting against your lifetime exemption amount.

Giftting during your lifetime reduces estate tax, which is owed on the value of your estate at your passing. If you are married, this is assessed when the surviving spouse passes. The current Federal estate tax exclusion is \$12.92 million per person (\$25.84 million per married couple); any over \$12.92 million is taxed at 40%. [2]Certain states also charge a state estate tax, such as Washington, which starts at estates valued over \$2.193 million[3], and Oregon, which starts over \$1 million. [4]

Upcoming Changes

The Tax Cuts and Jobs Act of 2017 doubled the exemption limit for both the Federal estate tax and lifetime estate and gift tax. This is set to sunset, or expire, in 2026. If no legislative changes are made, the increased exemption will be reduced to \$6.46 million in 2026. The IRS has ruled that making large gifts now will not harm estates after 2025, meaning they will honor pre-sunset transfers. Lifetime gifts made between 2018 and 2025 will not be clawed back, even if the individual lives past 2025. [1]This allows those with large estates to make significant gifts now to maximize the current exemption. Even if your estate is not over \$6.5m now, you may subject in the future.

Considerations

- **Timing:** Assets gifts at death vs. during your lifetime are treated very differently from a tax perspective. When you give an asset such as stock or real estate during your lifetime, the beneficiary will inherit your cost basis. If they receive the gift from your estate, the cost basis in most cases, is stepped up to the value at the date of death. Giftting assets on a low-cost basis often make sense to wait until death to receive the step-up, or it may be appropriate to gift someone in a low tax bracket.

- **Asset Type:** Gifting cash is the most tax-friendly for the beneficiary as nothing is owed on receipt, and they do not have to liquidate to utilize. Gifting investments that are set to appreciate significantly can transfer growth to the next generation while reducing future estate tax for the grantor.
- **Direct Gifts v. Gifts to Trust:** If you would like to set in place terms for the use of the assets gifted, consider utilizing an irrevocable trust. This allows you to control how the funds are used, such as for paying for education or only allowing the beneficiary to have access to income generated. This is most appropriate for large gifts, as the set-up and management of the irrevocable trust can be expensive and time-consuming.
- **Paying Directly:** Opt to pay education costs and medical expenses directly to the institution instead of giving to the beneficiary to pay. When paid directly, this does not count as a gift.

A financial plan can help you understand how you may be subject to state and Federal estate tax and illustrate strategies to minimize this tax. We recommend reviewing your gifting strategy continuously to ensure it is still set up to reach your goals.

[Explore Our Private Wealth Page](#)

[1] <https://www.irs.gov/businesses/small-businesses-self-employed/frequently-asked-questions-on-gift-taxes>

[2] <https://www.irs.gov/businesses/small-businesses-self-employed/estate-tax>

[3] <https://dor.wa.gov/taxes-rates/other-taxes/estate-tax-tables>

[4] https://www.oregon.gov/dor/forms/FormsPubs/form-or-706-inst_104-001-1_2022.pdf

[5] <https://www.irs.gov/newsroom/final-regulations-confirm-making-large-gifts-now-wont-harm-estates-after-2025>



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