

Smart Gifting Strategies for Family Wealth Transfer

Gifting assets to family members can be a powerful way to reduce taxable estates and support loved ones—but timing and execution matter. This course covers key gifting strategies, annual exclusion planning, and education funding tools including 529 plans, autopilot contribution approaches, and prepaid tuition options. Whether you're helping clients fund college or shift wealth to the next generation, you'll come away with concrete techniques to structure gifts in a tax-efficient and goal-aligned way.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recall the purposes for various gifting strategies.

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Chapter 1: SMART STRATEGIES FOR GIFTING ASSETS TO FAMILY MEMBERS

Chapter Objective

After completing this chapter, you should be able to:

- Recall the purposes for various gifting strategies.

There can be a lot of good reasons to give away your assets. However, many people are reluctant to do this, fearing that they might need those assets at some future date. For example, we met an elderly widow who had \$11 million in mostly government bonds. Her income needs were very modest; however, she was unwilling to make any gifts for fear she might need the money for a future health reason. The best way to overcome these fears is to understand how much in assets you'll need in the future. To do this, complete the analysis in Chapter 2 of course 34152C. Knowing that you have substantially more assets than you need for your retirement years should make you more confident about giving away assets. In this chapter, we examine the most popular strategies for gifting assets to family members.

THE ANNUAL GIFT TAX EXCLUSION

You may think that giving away your assets shouldn't include interference from the government. After all, it is your property, and you should be able to do with it as you please. There was a time in our history when this was the case. The result was deathbed gifts of all one's property to avoid death (estate) taxes. But newer laws have changed the nature of the game, and you must follow the new rules if you're going to successfully minimize your taxes. The rules for annual gifting are as follows:

- In any calendar year you are allowed to give away up to \$19,000 per person to as many people as you desire without triggering any gift taxes. The gifts can be in cash or property. This annual exclusion is indexed for inflation and, for 2026, remains \$19,000.
- If you are married, you may give away up to \$38,000 per year to as many people as you desire (assuming the requirements are met, i.e., the gift is of a present interest) if your spouse consents to split gifts. This is called a split gift. These amounts adjust over time with inflation.
- Your gift must be a gift of a present interest versus a gift of a future interest. For example, if you deeded your 25-year-old son a piece of land but the deed says he will not receive title until his thirtieth birthday, this is a future interest and would not be eligible for the annual gift tax exclusion.

- Gifts to spouses who are U.S. citizens are unlimited. (For non-U.S. citizen spouses, there is a separate higher annual cap—\$194,000 for 2026.)
- If your gift exceeds the annual exclusion amount, that does not necessarily mean gift tax is due. Generally, a gift tax return (IRS Form 709) must be filed to report the gift, but often the return is simply informational—no tax is due. The amount above the annual exclusion first uses your remaining applicable exclusion amount (Table 11.1 on the next page); only after you fully use that lifetime exclusion would gift tax be owed. The federal tax law allows you to transfer assets to non-spouse, non-charitable beneficiaries during life or at death up to your applicable exclusion amount.
- Under the One Big Beautiful Bill Act (effective January 1, 2026), the unified estate, gift, and GST basic exclusion amount is set at \$15,000,000 per person (\$30,000,000 for married couples, via portability), with future inflation adjustments thereafter.

Tip

Payments you make **directly** to a school for someone's tuition, or directly to a medical provider or insurer for someone's medical care or health-insurance premiums, are not treated as taxable gifts. These payments do not use any of your annual gift tax exclusion and do not reduce your lifetime exclusion. To qualify, you must pay the provider or insurer, not reimburse the individual. For education, only tuition counts— not books, supplies, room, or board. For medical, qualifying amounts include payment for diagnosis, treatment, prevention, and health-insurance premiums. Keep copies of invoices and proof of payment with your records.

UNINTENDED GIFTS

It's possible to make a gift without meaning to, and that can create surprise tax issues. Here are common examples and how they work:

- Adding a child to your bank account. If you put your child's name on your checking or savings account, a gift is treated as made when your child withdraws money that belongs to you. If the amount taken exceeds the annual gift-tax exclusion, the excess is a taxable gift.
- Adding someone to a real-estate deed. If you add another person's name to the deed so they'll "get the property when you die," you've usually made a gift at the moment you sign the new deed because you transferred a present ownership interest.
- Buying investments in joint names. If you buy a stock, bond, or partnership interest and title it jointly with someone else, you've generally made a gift when you create the joint ownership (to the extent the other person didn't pay for their share).

TABLE 11.1 APPLICABLE EXCLUSION AMOUNT (ESTATE/DEATH AND GIFT), 2005–2026

Year	Exclusion Amount (Death)	Exclusion Amount (Gift)
2005	\$ 1,500,000	\$ 1,000,000
2006	\$ 2,000,000	\$ 1,000,000
2007	\$ 2,000,000	\$ 1,000,000
2008	\$ 2,000,000	\$ 1,000,000
2009	\$ 3,500,000	\$ 1,000,000
2010	\$ 5,000,000 or \$0	\$ 1,000,000
2011	\$ 5,000,000	\$ 5,000,000
2012	\$ 5,120,000	\$ 5,120,000
2013	\$ 5,250,000	\$ 5,250,000
2014	\$ 5,340,000	\$ 5,340,000
2015	\$ 5,430,000	\$ 5,430,000
2016	\$ 5,450,000	\$ 5,450,000
2017	\$ 5,490,000	\$ 5,490,000
2018	\$11,180,000	\$11,180,000
2019	\$11,400,000	\$11,400,000
2020	\$11,580,000	\$11,580,000
2021	\$11,700,000	\$11,700,000
2022	\$12,060,000	\$12,060,000
2023	\$12,920,000	\$12,920,000
2024	\$13,610,000	\$13,610,000
2025	\$13,990,000	\$13,990,000
2026	\$15,000,000	\$15,000,000

Year	Exclusion Amount (Death)	Exclusion Amount (Gift)
<i>Note: 2010 estate exclusion was elective (\$5,000,000 or repeal). Amounts reflect federal basic exclusion; estate and gift have been unified since 2011.</i>		

- Estate-tax inclusion with joint property. In the joint-ownership situations mentioned, if you supplied all the money to acquire the asset, the full value is typically included in your estate at death (unless the other owner can prove they contributed). If that isn't what you want, consider fixing it by making intentional gifts that fit within the rules and, if needed, filing a gift-tax return.
- Guaranteeing a loan. Simply agreeing to guarantee someone else's loan is generally not treated as a gift by itself. However, if there's a default and you have to pay the lender, that payment is treated as a gift to the borrower (to the extent they don't repay you).

Providing loan guarantees can also create negative estate tax results. When you die, your loan guarantee becomes an obligation of your estate. As such, it might not qualify for the marital deduction and could jeopardize a qualified terminable interest property (QTIP) qualification. The Internal Revenue Service has issued both favorable and unfavorable private letter rulings on this subject. If you're involved in this type of situation, proceed with caution and get assistance from a competent legal adviser.

FILING A GIFT TAX RETURN

Gifts that you make for less than \$19,000 do not require the filing of a federal gift tax return. If you and your spouse decide to "split gifts," you are required to file a federal gift tax return (Form 709). This is true even if the combined gift is less than \$38,000, and no gift tax is due. All gifts of a future interest, and gifts of a present interest greater than \$19,000, require the filing of a federal gift tax return. If your state of residence has a gift tax, you may also have to file a state gift tax return.

THE LIFETIME APPLICABLE EXCLUSION AMOUNT

In addition to the annual exclusion, you are also allowed a lifetime applicable exclusion amount. This lifetime applicable exclusion amount represents the amount of money or property that you can transfer, other than to your spouse or to a charity, free of gift or estate taxes. For 2026, the applicable exclusion amount is \$15 million (\$30 million for married couples) and is indexed annually for inflation. If these gifts are not made during your lifetime, they can be used at the time of your death.

Although most people wait to use their applicable exclusion amount at death, it can be advantageous to use it while you're alive. If you own an asset that you expect to appreciate rapidly, you can remove the appreciation of that asset from your future estate by giving it away before your death. For example, suppose you own an interest in a business that is presently valued at \$4 million.

If the business is expected to rapidly appreciate, you could consider giving a portion of your interest in the business to your children, via a trust. If the business increases from \$4 million to \$15 million, the appreciation is removed from your estate.

OUTRIGHT GIFTS

Based on an evaluation of your estate, you determine that you have excess assets and can therefore afford to begin a gifting program for your children. Now that you have made this decision, what is the best way to maximize the power of your gifts? The answer is to evaluate the different assets that you own that are available to give away. The following sections present a review of the pros and cons of several different possibilities.

Outright Gifts of Cash

Perhaps the easiest gift to make is cash. You simply write a check to your child or other donee. The recipient receives the money and does with it as he or she pleases. The disadvantage is that your child may spend the money unwisely. We have seen many cases where children become dependent on annual gifts from their parents. Another disadvantage is that the money you give could become subject to either a divorce proceeding or some other type of creditor's claim.

Outright Gifts of Appreciating Property

The value of giving away property that is expected to appreciate rapidly is that you are also giving away the *future growth*. Suppose you give your child \$15,000 worth of stock in a start-up company that you expect to appreciate significantly. As it turns out, you were correct, and the stock appreciates on average 15 percent per year over the next 25 years. By making a gift of \$15,000 in the present, you have removed an asset that would have grown (compounding appreciation) to \$493,784 in the future.

Outright Gifts of Appreciated Property

Some people choose to give away assets that have already appreciated substantially. If you expect the asset to continue to appreciate rapidly in the future, then you will receive some of the same benefits mentioned previously. Gifting appreciated property can have its disadvantages. Some of your gifts of appreciated property are subject to divorce proceedings and creditor claims. Also, if you hold appreciated property until you die, your heirs receive a stepped-up cost basis. Your heirs could then sell the property and not incur capital gains income tax liability from the sale.

Roth IRAs

It may seem strange to discuss Roth individual retirement accounts (IRAs) in the section on giving assets to your children, but one of the true power plays is to give your children the money to make a Roth IRA contribution. Assume that your 19-year-old daughter works summers to earn extra spending money. Her total earnings are \$6,500. You give her \$5,500 so she can make a contribution

to a Roth IRA. Her contribution to the Roth IRA is not deductible, but because of her low tax bracket this is unimportant. The true value of the Roth IRA is *tax-free* growth. The earnings will never be taxed if she adheres to the following rules:

A qualified distribution is one made:

- After the five-year period beginning with the first taxable year for which a taxable contribution was made to a Roth IRA in your name; and
- After she turns age 59½; or
- Because she is disabled; or
- She used the money for a qualified purpose. A qualified purpose includes withdrawals of up to \$10,000 in acquisition costs for her first home. Another qualified purpose is withdrawals for tuition payments of qualified higher education expenses for herself, her spouse, or her children.

Distributions of the amount she has invested (called *basis*) in her Roth IRA are never subject to taxes or penalties.

Although a \$5,500 contribution may not seem significant, the results can be quite dramatic. Let's assume that you start your 16-year-old son on the journey of investing by matching his summer earnings with a \$5,500 contribution to a Roth IRA. If you inspired him to continue this annual investment until his age 60, the total investments of \$242,000 would be worth over \$2 million (an 8 percent rate of return)! As an added bonus, because it is a retirement account, he is less likely to squander the money.

Caution!

Making gifts, particularly gifts of appreciated property, may be less advisable post-OBBA. If there is no concern about estate (death) taxes, property transferred at death via a last will and testament will receive a step-up in cost basis, meaning the recipient could sell it the next day and owe no income taxes. Receiving the gift now means they own it at your current (lower) cost basis, and a subsequent sale would likely trigger capital gains taxes.

WHEN THE DONEE IS A MINOR

If you have decided to begin making gifts to your children, but they are minors, you will need to make special preparations. Although the law allows minors to receive property in their name, no state allows them to sign legally binding contracts, so future dealings involving their property can be difficult. Practical ways to manage minor children's property include using custodial accounts or minor's trusts. In the following sections, we examine each approach.

Custodial Accounts