ROBERTSON STEPHENS®

December 11, 2023 – Wealth Planning Commentary

Creative Ways to Gift this Holiday Season

It's the holiday season, and gifts are on everyone's mind. This year, we're sharing some of the savviest gifting ideas from a tax standpoint:

Annual Gift Tax Exclusion
The annual exclusion is $17,000 per recipient for those gifting as individuals and $34,000 for married couples. Remember that the annual exclusion may be gifted to an unlimited number of people, and does not count against the $13mm individual lifetime exemption. We recommend gifting the annual exclusion to gradually shift assets outside of one's estate. Gifts must be made by year's end to count for 2023. Paper checks must be cashed by December 31st. Otherwise they count as 2024 gifts.

Tax Arbitrage Gifts
Although gifts may be in cash, some may benefit by gifting securities. Gifting securities with a low basis or high unrealized gains is an opportunity for tax arbitrage. The strategy is for someone in a high capital gains tax bracket to give to someone in the lowest bracket. The cost basis transfers to the recipient and the securities may be sold. The recipient does not pay taxes and the giver avoids paying capital gains taxes.

Paying Directly for Medical and Education Expenses
Another type of tax-exempt gift is a direct payment for medical or education expenses. Direct payments will not dip into the annual exclusion or lifetime exemption and there is no limitation on the amount. Payments may be made on behalf of family, friends, or anyone else – as long as payments are made directly to the institution. Payments for health and long-term care insurance are considered direct. However, Health Saving Account (HSA) contributions for a recipient are considered taxable gifts, and unfortunately, will count toward the annual exclusion or lifetime exemption.

Roth IRAs
A Roth IRA is likely the most desirable account available. It's hard to accumulate substantial assets in a Roth IRA unless one is performing a conversion from a pre-tax IRA to a Roth IRA. The best strategy to fund a Roth IRA is to start early, contribute funds and invest each year. The money will compound tax-free, and withdrawals are also tax-free after age 59.5. Consider gifting funds to young family members who earned income this year (summer jobs and internships count!) Earned income is a requirement for Roth contributions. The gift limit is the lesser of how much was earned, or $6,500. The gift is made directly to the Roth.

529 Plans
Contributing to a 529 plan is another means of gifting. Helping to pay for a family member or friend's education is rewarding and welcomed by the recipient. A 529 Educational Savings Plan is also one of the more tax-advantaged vehicles for building generational wealth and can also instill legacy values.

529 plans have three main tax advantages: contributions can receive state income tax deductions, funds grow tax-free in the account, and withdrawals for qualified educational expenses are free from federal tax and most state income taxes. A 529 plan is typically used for higher education expenses, and some states allow funds to be used for K-12 schools.

Many question the benefits of contributing to a 529 if the beneficiary is close to enrolling in college. If the state allows a tax deduction, it is likely beneficial to contribute throughout their college years. If the state does not allow deductions, and the teenager is expected to enter college soon, it is likely less beneficial.

Some may be concerned about overfunding a 529 plan beyond educational needs because the assets become 'stuck' in the 529. Two strategies may help overcome this concern. For those who would like to transfer wealth and 'pass on' their values around education, a Legacy 529 is a great estate planning strategy. Clients should designate a successor owner to the 529 plan, which may be the current beneficiary. A 529 plan successor may change the beneficiary to their children in the future. Keep repeating this process and the 529 plan becomes a legacy education fund. Overfunded 529 plans can also be used to fund a Roth account for the beneficiary. The Secure 2.0 Act created the ability to transfer funds from a 529 to Roth, but there are some restrictions.

Donate on Behalf of Someone to Charity
Donating to charity on behalf of someone will allow the donor to receive an income tax deduction for the donation. A donation in honor of someone means they will receive recognition. Donations should be made now to count for the 2023 tax year. Consider donating appreciated securities. The donor receives a tax deduction and avoids paying capital gains tax.

Please reach out to your Wealth Manager with questions about gifting.