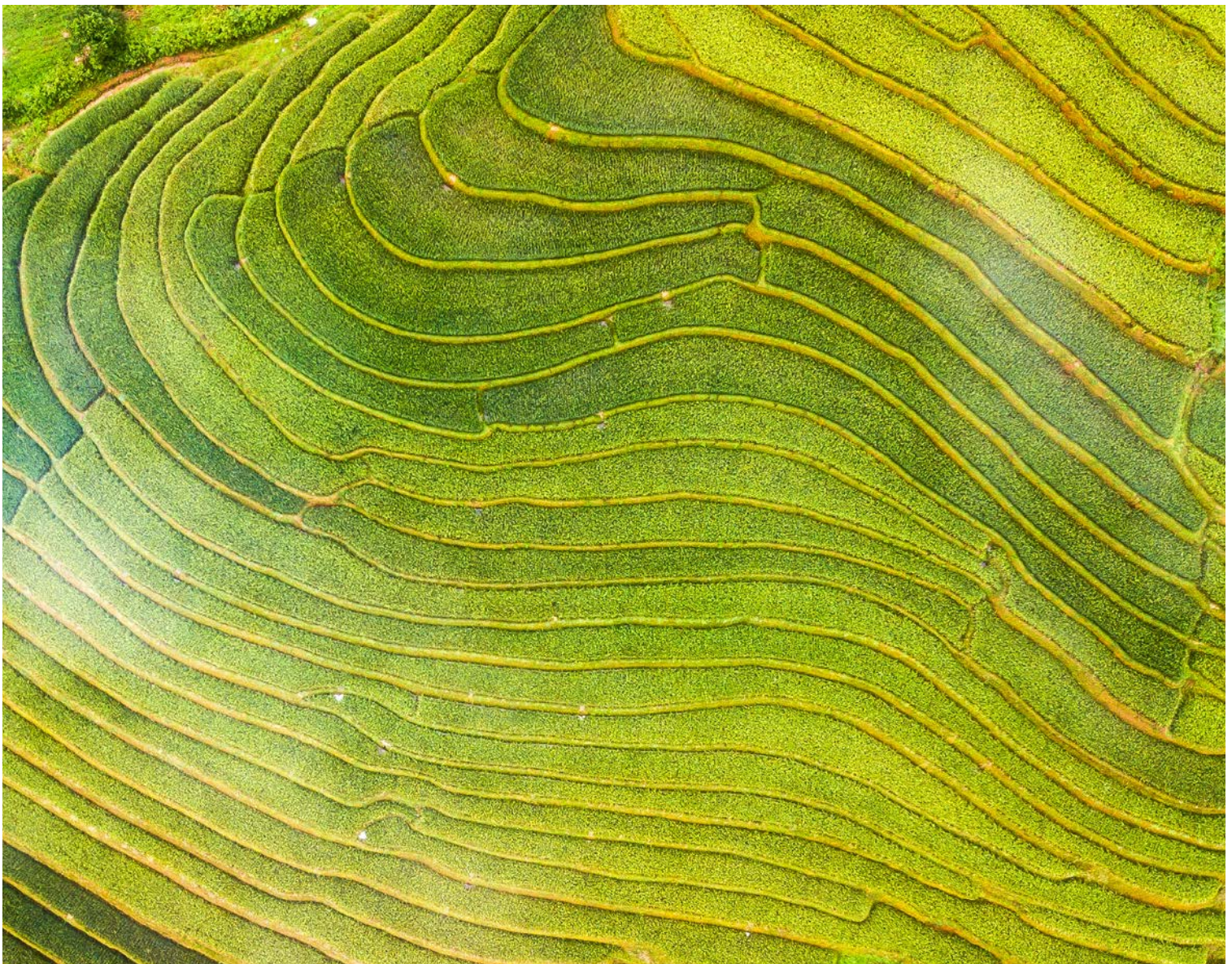


The family guide to lifetime gifting.

Learn about the options you have to realize your gifting goals, starting with the questions to ask before you even start planning.



The gift of your good fortune: How do you plan to pass it on?

You've achieved success and you want the same for your family—children, grandchildren, spouse, and siblings—maybe even friends. What better way to offer a head start in life than by gifting money?

It's fulfilling, and can offer a potential side benefit of positively affecting your estate plan. And, as joyous as giving can be, numerous technical, legal, tax, and other implications can muddy the waters. (The good news: there are professionals to help you through it.) But before you start gifting, start planning. Discuss with your spouse or partner what you have, why you want to give, and how much.

Before you give, ask these questions:

- Do my recipients have the same set of needs or interests?
- Do I want my giving to carry on a family tradition, or start a new tradition?
- Do I want to feel as if my gifts will supplement my recipients' lifestyles today?
- Do I want to feel as if I am helping each of my recipients' financial security for the future?
- Do I want to relinquish some, all, or no control over my assets?
- Am I on track? How do I want to measure against my gifting goals?
- Can I afford to part with the money or assets I'm thinking of gifting?

Three best practices for lifetime giving.

1 Communicate your intentions for a more effective giving strategy

An effective giving strategy is part of an overall legacy plan. It's important that your goals, objectives, and motivations for giving a gift match the desires of your recipient. Whether you've known the person or organization for a long time or you simply need to ask a few questions, be sure to find out:

- Where they need assistance
- What goals and objectives they have

Depending on how well you know the recipient, this step may take more time than you expect, and it requires focus and commitment.

Time to talk

Talking about money is often taboo to wealthy families. A recent study on family governance revealed that wealth generators are not talking about wealth, gifting and goals with their children or future generations.

- Only 2% of respondents' children are involved in making decisions, and only 15% are simply kept informed
- 55% of children "know the basics"
- 28% of respondents have had no communication with their children at all

How you present your gift is as important as the gift itself.

Whether the unveiling of your giving plan is ceremonial or simply conversational, the point is to consider the messages that you want to deliver. After all, your recipient will carry forward this message, and as a result, form the basis of your legacy. See the examples to the right matching intentions with a message or communication goal.

Intention

Who do we want to influence? How? When?

Jason (son)

Down payment on a home within three years

Sarah (daughter)

Set up college funds for Sarah's two children (our grandchildren)

Message/how to communicate

What is the true intent/message?

"We want to help you get started. Your grandparents helped us, and now we want to help you."

"We believe quality education leads to important life advantages. We sent you to college and now want to help with your children's (our grandchildren's) education because we want them to have a good life."

2 Track gifting progress to make better decisions

Tracking the progress of your giving activities will help you make the most effective decisions about your wealth and identify key trade-offs. Understanding your progress toward meeting your gifting goals can directly affect how aggressively you spend or invest. A downturn in the market could result in gifting less to an individual, or it could require you to shift gifts from one type of recipient, a charitable beneficiary, to a child to ensure your family “has enough.” It will also help you remain organized and in control of your process. Personalized, clear, actionable, goal-oriented reporting provides insight into how well (or not so well) your plan is doing in relation to your objectives.

The gifting scorecard is a good tracking method; plus, it can serve as a communication tool when meeting with potential recipients and showing the progress and fairness of your plan.

Gifting family scorecard

Annual gifting/income

Gift	1/1/2024 - 12/31/2024	Cumulative (since 2005)
Annual Exclusion Gifts (Cash)	Child 1: \$5,000 Child 2: \$5,000 Grandchild: \$2,500	Child 1: \$105,000 Child 2: \$110,000 Grandchild: \$7,500
Education Gifts	Child 1: \$10,000 Child 2: \$7,500	Child 1: \$65,000 Child 2: \$50,000
Misc. Expense Reimbursements	\$3,000	\$12,000
ILIT Insurance Premiums	\$40,000	\$400,000
Cash Flow from Family Limited Partnership	\$15,000	\$150,000
Grantor Trust Income Taxes (Estimated)	\$10,000	\$100,000
Total Annual Gifting/Income	\$98,000	\$999,500
Loans Outstanding (From parent to child 1)		Personal: \$25,000 Business: \$15,000

Lifetime wealth transfer: Actual

Description	Current value
Gift of Investments (Value at 12/22)	\$1,000,000
Loan Forgiveness Gift	\$500,000
Family Limited Partnership	\$250,000
GST Trust	\$500,000
Insurance Policy ILIT	\$1,000,000
GRATs Excess (Terminated-2014)	\$750,000
Vacation Home-QPRT	\$250,000
Miscellaneous Gifts 2011, 2012, and 2013	\$50,000
Total Lifetime Wealth Transfer	\$4,300,000
Total Annual Gifting/Income (Cumulative amount from other chart)	\$999,500
Total Wealth Transfer and Gifting	\$5,299,500

For illustrative purposes only.

3. Examine your motivations

An old axiom in stock market investing is that “buy” and “sell” decisions should not be driven by tax consequences. The same principle applies to gifting. While there are some potentially favorable estate planning benefits, they should not be the sole motivation for gifting. In truth, a financial gift that is part of a legacy plan is not unlike any other gift that you might give. Two of the strongest motivations for choosing one kind of gift over another are the fulfillment and excitement it provides you, and what it says about your relationship with the recipient. You need to examine your relationship with the recipient, and the goals and objectives you have in mind for helping them. These should be the motivations for the gifts that you make.



How you see it

Gifting techniques

How recipients (children) see it

Helping with the day to day

Annual gifts

For today, spending/saving

Helping with the big-ticket items

Pay tuition, medical expenses, buy a car

For today, help on big/important stuff

Helping children build a base or future

Grantor retained annuity trust (GRAT), gifts to grantor trust

For tomorrow, save, major purchases, next big thing

Keeping it in the family

Irrevocable trusts, family limited partnership, life insurance, generation-skipping trusts

For the future financial freedom, my children, my children's children

Different gifting techniques help maximize value, diminish tax exposure

Lifetime exemption gifts

During your lifetime, you can gift up to \$13,990,000 to others, or \$27,980,000 for a married couple (the amount of your lifetime gift tax exemption, adjusted for inflation), without incurring any federal gift tax.¹

The strategy requires careful planning, because the amount of the gift tax exemption you use during your life reduces the estate tax exemption. Even with this trade-off, the benefits can be substantial, because the appreciation on the gifts you give to children or others can be significant, and the growth will escape taxes in your estate. This presumes, of course, that you do not need the money or asset that you're thinking of gifting.

Example: Suppose you gave \$10,000 to a child at birth. If this were invested and earned an average annual compound return of 8%, it would be worth \$50,338 at the child's 21st birthday. If this same \$10,000 were kept in your estate earning the same 8%, and your estate was in excess of the estate tax exemption, the outcome could be quite different. Specifically, the \$10,000 and all of the gain could be subject to estate taxes of 40% or more. By shifting wealth to heirs and beneficiaries early on, and allowing it to compound over time, you can avoid significant estate taxes.

Annual exclusion gifts

More good news: There are certain gifts you can give that do not count toward your \$13,990,000 lifetime exemption. The most well-known of these is the annual gift exemption. Under this exemption, you can gift to anybody you want or to certain kinds of trusts each year, up to \$19,000 individually and \$38,000 as a married couple (the amount of the annual gift exclusion), without you or the recipient owing taxes on it.¹ A gift tax return may be required or desirable in some cases.

Other gifts not counted toward your lifetime exemption include:

- Charitable gifts
- Gifts to your spouse/domestic partner²
- Gifts of educational expenses (tuition only). To qualify, these gifts must be made directly to the educational institution
- Gifts of medical expenses. Again, to qualify, these gifts must be made directly to the medical institution or provider of the medical care

¹As of 2025.

²Different rules apply to non-U.S. citizen spouses/domestic partners.

Estate freezes

Estate freezes are ideal techniques if you are interested in protecting and passing on wealth by locking the current value of the underlying asset and achieving capital growth outside your estate. Using highly appreciating assets improves the effectiveness of the techniques. Some estate freeze methods create a valuation discount upon gifting the underlying asset, thereby enabling the transfer of a greater percentage of assets than would otherwise be possible.

One powerful and popular estate freeze method is the intentionally defective grantor trust (IDGT), which is structured so that the grantor retains certain powers. The value of the gifted assets is locked for estate planning purposes. Though the assets are transferred out of your estate, the grantor remains responsible for the income tax on trust income which further reduces your estate value and hence lowers your estate tax.

Another commonly used estate freeze is the grantor retained annuity trust (GRAT). A GRAT is a relatively simple estate planning technique that individuals may use to remove assets from their estate. Ultimately, it is an effective approach that can capture and transfer capital appreciation without generating gift or estate tax.

Aggressive transfers

Many estate planning techniques use the power of the lifetime gift exemption. The objective in each technique is to maximize the benefits of using the exemption (also known as the unified credit) specifically to reduce exposure to estate tax. These techniques include interfamily loan forgiveness, family limited partnerships (FLPs), qualified personal residence trusts (QPRTs), installment sales to grantor trusts (use of unified credit for “seed” money) and irrevocable insurance trust (ILITs) (if premiums exceed the available annual exclusions).



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Learn more.

A good fortune and a good heart is a great gift. Be sure to pass it on with a plan.

After you've carefully considered what you want to give, to whom, and how, and discussed it with family members, it's time to carry out your intentions.

To learn more, or for help putting your plan into action, call a member of the Private Wealth Management team at 888-551-7872 or visit seic.com/privatewealth.

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