

Use It or Lose It

The U.S. government imposes a tax whenever its citizens make a gift either while alive or at their death. Whenever you make a gift, you must file a gift tax return. Each year, however, you are permitted to give up to \$18,000 per person without owing any gift tax or having to file a gift tax return.

You can also make unlimited gifts for education and medical expenses. The deadline for making annual tax-free gifts is December 31st of each year. If you fail to make the gift by the end of the year, you cannot go back and make a retroactive gift.

Why is it beneficial to make gifts? For those who have a high net worth, they may eventually be subject to estate taxes of up to 40% at their death.

Utilizing your \$18,000 annual exclusion for gifting is a smart financial strategy that offers several benefits. First and foremost, using your annual exclusion helps reduce the size of your taxable estate. Currently, any estate exceeding the federal estate tax exemption limit is subject to estate taxes upon your death.

By regularly gifting up to \$18,000 per recipient annually, you can gradually diminish the overall value of your estate, potentially saving your heirs significant amounts in estate taxes. This strategic gifting can thus help preserve more of your wealth for future generations.

When you make a gift, any future appreciation of those assets occurs outside your estate. This means that the increase in value benefits the recipient directly without adding to your estate's taxable value. Over time, this can lead to substantial tax savings and increased financial growth for your beneficiaries.

For example, if a married couple has four children, they can each give \$18,000 to an irrevocable trust for their children, which totals \$144,000 per year. These annual gifts growing at an 8% return over 20 years will grow to \$6.8 million. If they did not make those gifts, their estate would be worth \$6.8 million more. By making those gifts they saved their children about \$2.7 million in taxes under current tax law.

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