

Gifts for Individuals

Gifts represent the opportunity to transfer your assets during your lifetime and potentially reduce your taxable estate. When you gift, you can enjoy the benefit of seeing your gift in action, and you may also benefit from tax advantages. For many people, witnessing the impact of their gift is important. Making gifts to family members or others while you're alive lets you do just that. Before you implement any gifting strategy, you should consult your legal and/or tax professionals to evaluate how this may affect your estate plan and tax situation.

Benefits of a Gifting Strategy

Reducing your taxable estate used to be as simple as writing a check. However, for many individuals with substantial estates, this way of gifting simply doesn't meet their tax-saving or estate-planning needs. They're turning to more sophisticated gifting techniques that offer greater tax advantages or the opportunity to realize other benefits, such as:

- Providing continual income to heirs
- Avoiding capital gains tax on appreciated assets
- Reducing potential estate taxes
- Transferring assets at a discounted value

Gifts Limits

Annual: You can gift up to \$13,000 per year to any individual tax free (\$26,000 to an individual if you and your spouse combine gifts). This amount is known as your annual gift tax exemption amount.

Cumulative: Under current law, you may gift up to \$5.12 million during your lifetime above the annual gift tax exemption amount. Once you reach the limit, any additional gifts will trigger gift taxes, for which you will be responsible. It's important to remember that this "lifetime" gift tax exemption will reduce (dollar for dollar) your estate tax exemption. In addition, the

\$5.12 million gifting exemption is scheduled to revert to \$1 million on Jan. 1, 2013, unless Congress passes additional legislation.

Choosing a Gifting Strategy That's Right for You

Whatever your reasons for gifting, you have a variety of strategies available to help you distribute your assets to your family and other beneficiaries.

Gifts Appreciated Assets – By gifting appreciated assets, such as stocks or mutual funds that have grown in value and have a very low cost basis (i.e., generally the original price you paid for the stock), you can transfer an appreciated asset to your beneficiary without an immediate income tax consequence. By gifting rather than selling appreciated assets and gifting cash, you avoid paying capital gains tax on the difference between what you could have sold the asset for and what you paid for it (known as your cost basis).

Gifts appreciated assets also removes them from your estate for estate tax purposes. However, if the gift is more than \$13,000 (\$26,000 for married couples) per year, you will need to use a portion of the \$5.12 million exemption. And keep in mind that if you gift appreciated assets while

you're alive, the beneficiary of the gift assumes your cost basis. As a result, if you gift an appreciated asset and the beneficiary sells it, he or she will generally be subject to the capital gains tax.

Education and medical contributions - You can bolster your annual gifting by paying amounts directly to a qualified education institution for tuition or a medical provider for medical treatments. These direct payments are not considered taxable gifts. As a result, they're not included as part of your \$13,000 annual exemption amount.

If you want to help your children, grandchildren or other individuals pay for education expenses, consider opening and contributing to a 529 college savings plan. You can gift up to \$13,000 (your annual exemption amount) per year tax free. In addition, these plans let you make up to five years' worth of annual exclusion gifts [\$65,000 (\$13,000 x 5 years) for you; \$130,000 combined from you and your spouse]

in one year per individual. However, once you contribute the maximum amount using the five-year acceleration rule, you cannot make additional annual exemption gifts to that individual for those five years without incurring gift tax consequences.

Incorporating Gifting into Your Overall Estate Plan

Whether you plan to gift to provide for loved ones or to lower your taxable estate, you have many options. Your team of professionals, including your Edward Jones financial advisor, your attorney and your tax professional, can help you explore your options so you can choose the strategic approach that best fits into your overall estate plan.

This document is intended for broadly informational purposes only. Edward Jones, its employees and financial advisors are not estate planners and cannot provide tax or legal advice. Please consult your estate-planning attorney or qualified tax advisor regarding your situation.

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