The Benefits of a Living Inheritance

Creating a gifting strategy to donate assets to non-profits or causes that are meaningful is a standard part of many financial plans – not just estate plans. Giving can begin at any age and is often a family activity.

Just as donating assets to charities while living can be gratifying to the donor and can put funds to work immediately, creating a gifting strategy that transfers assets to family and other people has similar benefits.

- Creates transparency around estate planning, so wishes are clear
- Reduces estate taxes
- Allows for control
- Provides necessary funds for education, business, or medical needs

There are some things to think through, but a living inheritance may simplify estate planning and help you understand what your loved ones need and value – and how you can best help.

Understand Your Own Needs

Life expectancy is longer now, and healthcare costs in the last decades of life can be costly. You want to be sure you understand your needs and leave yourself an adequate cushion before you settle on a giving strategy and start to distribute assets.

Look carefully at your liquid and illiquid assets, any real property, and also insurance policies to understand what your needs are and what assets are genuinely available.

Gift-Tax Exclusions Are Effective, Efficient, and Repeatable

Removing assets from your estate now will reduce the tax liabilities later. Your first step should be to use your annual gift tax exclusion of $17,000 ($34,000 for a married couple filing jointly). You can make these gifts yearly, and they don't count against the $12.92 million individual lifetime tax exemption.

You can also give money for education and medical expenses without incurring any tax liability and without counting against the lifetime exemption. Education gifts can include everything from early childhood education to graduate school, as long as the gift is paid directly to the qualified institution.

Medical expenses are a broad category that also includes insurance. This is one of the biggest expenses families can face, so helping out here can remove a considerable, recurring expense, provide peace of mind, and reduce the taxable value of an estate.

Giving Appreciated Assets

Assets that have significantly appreciated – like equities with a low basis – can create a tax liability. Removing them from your portfolio by gifting shares to individuals in a lower tax bracket can be an effective way to avoid capital gains taxes. You'll need to consider what the giftee's needs are and whether it would be better to leave these in your estate to take advantage of the step-up basis when they pass to your beneficiary. However, this can be a very effective giving strategy for children or grandchildren in a low enough tax bracket to pay 0% capital gains.

Be Transparent and Tailor Gifts to Needs and Preferences

Giving an annual gift of the same amount to each child or grandchild, or earmarking a certain amount for each child's education, is a good starting point. But if you desire to gift more significant amounts, think carefully about your strategy from the perspective of both the giver and recipient.

- What will the money be used for?
- Will a large gift now complicate life choices?
- Are children responsible enough to handle the funds?
- How can you shield assets if necessary?

Giving funds now can mean your loved ones get the money when needed. It can make a difference in their choices in their careers, help them achieve a personal goal, fund an artistic endeavor, or make additional education possible.

Money can change lives, and it can be gratifying to see that in action. Helping to purchase a home, or investing in a business venture, can create a path to success and help relieve stress.

It can also create stress and needs to be handled carefully. There are two elements: ensuring that everyone understands your reasoning and creating safeguards.

Even if you have open family communication lines, be sure that you are clear and transparent in your intentions. Give everyone a chance to ask questions, be sure they understand the timing, and then memorialize the decided actions. This is especially important with unequal gifts or if the situation dictates one beneficiary receives a gift now and while others wait.

You may need to set up trusts to protect both the funds and the recipient or transfer property. You may decide to give funds in the form of an annuity and make regular payments, or you may want to set milestones to ensure that the gift's intended purpose is met.

Having a trusted advisor such as an attorney, CPA, or financial advisor be a party to the discussions can help keep things clear for everyone.

The Bottom Line

Being in a position to create your legacy now – and hopefully see it grow and improve others' lives – is a modern approach to wealth. Be sure that you have taken care of your own needs, create a formal plan, and allow everyone involved to understand the amount, intent, and timing of the gift. Reducing estate taxes is a benefit of a living inheritance strategy – but that shouldn't be the only objective.
