

## Gifting Money or Assets to Adult Children



Many of our clients are torn over whether to give money to their children while they can see them enjoy it or make them wait to inherit the money after their passing. There are pros and cons to each, so today's article is going to help you think through these issues.

### **Can you afford it?**

The number one issue is can you afford to give away assets now without concern that you may run out. The last thing you want to do is gift money early in retirement and then become a financial burden to your children later. You can give money more confidently if you have long-term care insurance to cover any potentially large future medical expenses and/or if you have guaranteed income sources (e.g. Social Security or pensions) that cover all or most of your living expenses.

### **Will it affect the recipient's motivation?**

Most of my clients who have substantial assets earned them all on their own. In fact, 80% of millionaire households did not inherit their money or have any kind of windfall. My clients are generally very proud of the struggles and sacrifices they overcame and their prudent financial decision making. Ironically, they then want to make life easy for their children and grandchildren. Paving an easy path for children denies them the pride-inducing sacrifices that make life's journey meaningful. I think this is less true if you are gifting to children who are older (e.g. 50s and 60s) and also less true for gifts that provide

experiences (e.g. sponsoring a family vacation/reunion, subsidizing educational expenses, etc.) as opposed to money that may be used to purchase material things.

## Will you give equally?

There is almost nothing you can do to create more hurt feelings and dysfunction in your family than gifting *unequally* among a group of children or grandchildren. It may make sense to you to support one child or grandchild more than others, either because one child needs more help, or one child wants to start a business or go back to school. Some people also leave unequal distributions to children or grandchildren through their will or revocable living trust after their passing. This will almost always create hard feelings both between parents and children and also among the siblings.

My advice is to always communicate why you are making unequal distributions while you are alive or leave a letter with your estate planning documents explaining your rationale for unequal bequests. This can be uncomfortable, but your children will come up with their own explanation (e.g. my parents had a favorite child...and it clearly wasn't me!) if you do not communicate why you made the decisions you made. I also recommend a conversation or letter to your kids explaining why / if you're taking some of "their" inheritance and giving it to a charity you find important. It may seem like you shouldn't need to explain what you do with your money, but hurt feelings can last a lifetime, and overshadow all the good times you had together.



## Tax Ramifications

To the IRS, the timing of your generosity makes little difference. The U.S. tax code makes it easy to give away money or other assets—and it doesn't matter whether you make the gift during your lifetime or after your death. In 2019, you can transfer \$11.4 million without the gift being subject to federal gift or estate taxes. (That amount is currently indexed to inflation, so it's expected to rise in future years.)

You are also free to give \$15,000 annually to as many people as you like without owing federal gift taxes or using up any of the \$11.4 million lifetime exemption. Plus, all those amounts are doubled if you elect to split gifts with your spouse, with each of you claiming half the value of your gift.

So, suppose in 2019 you and your spouse establish a trust for your three children and fund it with shares of your company worth \$4 million. You can count \$90,000 of that amount as tax-free annual gifts to the three kids (three times \$30,000) and use part of your \$11.4 million exemption to cover the rest. You still have more than \$7.4 million of your federal estate tax exemption (and \$11.4 million of your spouse's exemption) that you can use for future bequests. Just make sure to always file [IRS form 709](#) for gifts over the \$15,000 to let the IRS know that you are using part of your lifetime exemption. You (the donor) will be responsible for gift taxes if you gift more than \$15,000 and do not file form 709.

### **Cash or Appreciated Assets**

Parents usually give their grown children cash because it's the easiest thing to do. However, sometimes it may make more sense to gift appreciated assets such as stocks. When you give assets, the recipient inherits your cost basis and would be responsible for any capital gains tax when the asset is sold. This can make sense if the recipient of your gift is in a lower capital gains tax bracket than you are.

Gifting to adult children is a great topic to discuss with your financial and/or tax advisor. Feel free to reach out to your Surevest advisor if you have questions or would like to discuss.

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