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END OF YEAR TAX PLANNING

As we approach the end of the year, gifting strategies are often considered as a means to reduce our clients' taxable estates. For example, each person can gift up to $12,000 annually to others. Together, married couples can gift up to $24,000 per person. Multiply this sum by the children, grandchildren, and even sons and daughters-in-law, and there is the potential for considerably reducing one's taxable estate. Although this gifting strategy is often employed at year's end, it can be repeated as early as January 1 of the following year. The benefit of doing it earlier in the year is that interest or dividends that would have been earned by the gifted amounts are also removed from the estate and shifted to the recipient of the gift.

Another strategy that is often overlooked is making charitable contributions of your appreciated assets. For example, assume you were lucky enough to have purchased stock in Google at $100/share when it first went public. On the day this article was written, Google was trading at $700 for a gain of approximately 700%. If you were to sell that stock, you would have to pay 15% capital gains tax on the difference between the purchase price and sales price. If you had bought 1,000 shares for $100,000 those shares would now be worth $700,000. If you sold them, a tax of $90,000 would be due. If, however, that stock were donated to a favorite charity or place of worship, you would have no capital gains tax liability and would receive the benefit of a charitable deduction for the full value of the stock.

A word of caution is necessary. The effect of a gift of highly appreciated assets to a child or grandchild, instead of cash, does not eliminate the capital gains tax liability when those assets are later sold. Instead, the recipient will be responsible to pay the capital gains tax based upon the difference between the sales price and *your* purchase price. Moreover, if you gift assets valued in excess of the $12,000 annual gift allowance, you are required to file of a gift tax return. You will also either pay the resulting tax or utilize some of your lifetime unified credit. This, of course, will diminish, dollar-for-dollar, the amount of the unified credit available to reduce your estate tax liability after your death.

Gift planning can be an important estate planning strategy to transfer wealth to beneficiaries during your lifetime and reduce your estate tax liability. To ensure that you have sufficient time to evaluate your options and implement your planning before the end of the year, it is important to meet with your planning professional as soon as possible.