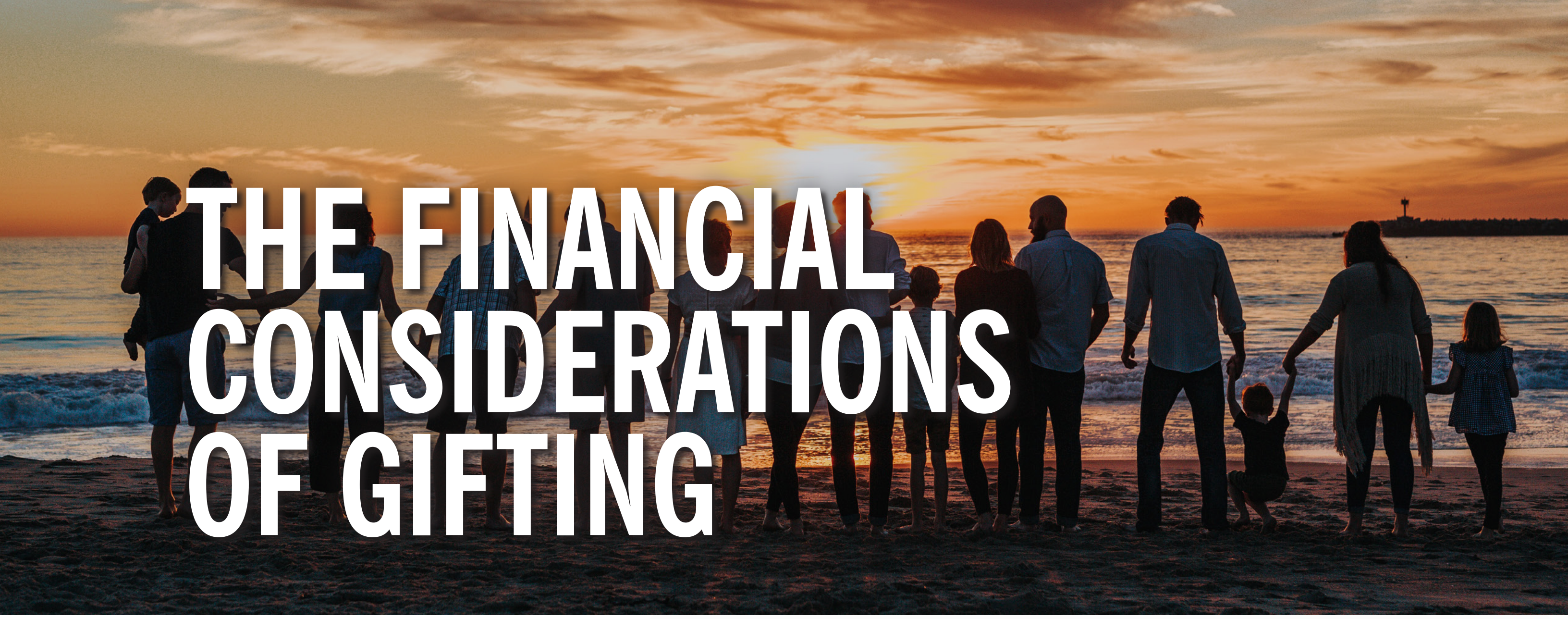


THE FINANCIAL CONSIDERATIONS OF GIFTING

With the holidays fast approaching, we thought it was a good time to discuss the financial considerations of financial gifting.

If you find yourself with an excess of wealth during your lifetime, you'll probably look for ways to share some of this wealth with those around you. For some of our clients, they choose charities or philanthropic organizations to support. For others, they give gifts to friends and family that can help these people along their financial journey.

In this article, we share the considerations for strategic gift giving to individuals. The goal? To help your financial gifts go further while minimizing your tax liability. As always, reach out to your team at CTS Financial Group if you have any questions about the material covered.

GIVING STOCK

While this isn't the first thing that comes to mind for most people, giving stock can be a great way to give a financial gift and share financial literacy with a young person. In general, the best way to give stock depends on if the stock is showing a capital gain or a capital loss within your portfolio.

DEPRECIATED STOCKS (SHOWING A CAPITAL LOSS)

In most cases, if you are holding a stock position that shows a capital loss, it is most beneficial to sell the stock first so that you get the capital loss on your tax return and give the cash value of the stock (rather than the stock itself). In 2019, you can claim up to $3,000 worth of capital losses as a tax deduction, and you can carry-over any capital losses over this amount into future tax years.

APPRECIATED STOCKS (SHOWING A CAPITAL GAIN)

Under the current tax code, the long-term capital gains tax is 0% for someone in the 10%

or 12% tax bracket. This compares to a long-term capital gains tax of 15% or 20% for all other tax brackets. For this reason, it can be beneficial to give appreciated stock to someone who is in the 10% or 12% tax bracket and have them close out the position. Consider the following example.

In 2010, you bought 10,000 shares of Company A for $5 per share. Today, Company A is trading at $10 per share, meaning you show an unrealized profit of $50,000 in the position ($5 per share x 10,000 shares). Since you are in the 22% federal tax bracket, you will have to pay 15% capital gains tax on this $50,000 appreciation when you sell the shares and realize the profit.

However, if you give this stock to your son who is in the 10% tax bracket, your son could sell the shares and pay zero federal capital gains tax on this $50,000 appreciation. As always, consult with a financial advisor before gifting large stock positions. It can be difficult or impossible to “undo” a transaction like this, so it’s important to get it right the first time around.

CASH GIFTS OR EARLY INHERITANCE

The most common financial gifts that we help manage are cash gifts. For many well-off families, they view this type of gift as an “early inheritance.” Like most things, the tax consideration from any gifting event is the most important, and it’s also important to keep in mind your annual and lifetime exclusion amount.

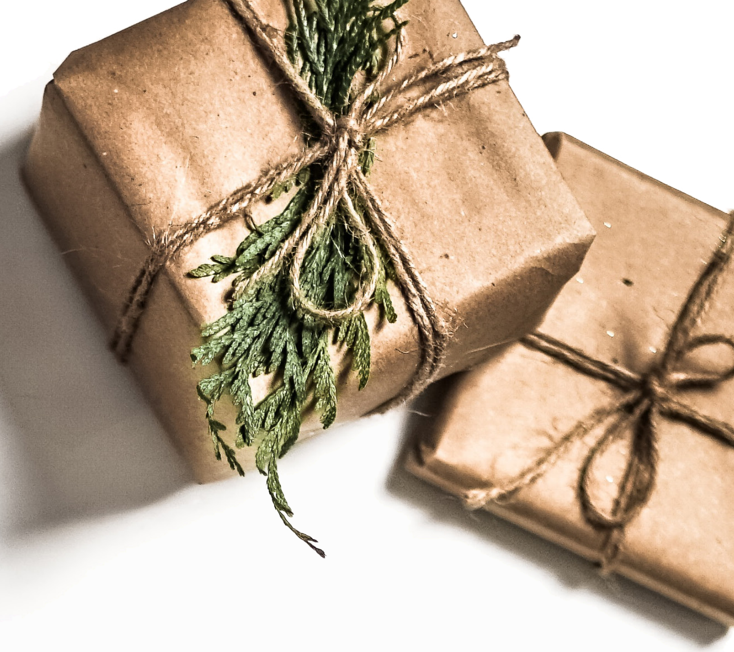
THE ANNUAL EXCLUSION

The biggest consideration for this type of giving is the IRS’ “annual exclusion” amount. In 2019, the annual exclusion was $15,000 per donor, per recipient. More simply put, this means that you can give $15,000 in cash or assets to as many people as you would like during a given year without having to file IRS Form 709. Your spouse can also do the same, meaning that you could both give a combined $30,000 to your child without notifying the tax man (or tax woman).

Important to note: this $15,000 annual exclusion includes all gifts throughout the year - both monetary and non-monetary. So, if you gave your child a check for $15,000 in March and a sweater for Christmas, you would technically be over the annual exclusion amount by the value of the sweater. While this is a simplified example, it’s more common that this becomes an issue when someone is giving cash and assets (like a car or appreciated stock) during a given year.

YOUR LIFETIME EXCLUSION

So, what happens if you go over your annual exclusion amount? Well, you still have a lifetime



exclusion amount. In 2019, this is $11.4 million, and the lifetime exclusion figure is adjusted every few years for inflation.

To see how the lifetime exclusion comes into play, consider what would happen if you gave $50,000 to your daughter in 2019 to help her buy a home. In this case, you would be $35,000 above the $15,000 per-person annual exclusion. Because of this, you would have to file IRS Form 709, and the $35,000 will count toward your $11.4 million lifetime exclusion. Only if you give more than $11.4 million during your lifetime will you be subject to gift taxes.

While that sounds like a large number, remember that whatever you don't use from your lifetime exclusion can be used against your estate when you pass away.

Even for investors with smaller estates, it's important to recognize that the tax code can and will change. Just because the lifetime exclusion is $11.4 million in 2019 doesn't mean it will be that amount when you pass away - so it's wise to save your lifetime exclusion when at all possible.

EDUCATIONAL AND MEDICAL EXPENSES

There is one big caveat to everything we just shared: giving that goes directly toward educational or medical expenses does not count toward your annual exclusion amount of $15,000 for 2019. To make sure this is clear to the IRS, any money must be sent directly to educational and medical providers, rather than to the student or recipient of the medical treatment.

CONSIDER GIFTING MEMORIES, FOR YOU AND FOR THEM

When most people get older, the memories they have of family vacations can be priceless. For this reason, we have many clients that give memories to loved ones... by way of family vacations. This can be a great opportunity to get the family together and show adult children part of the world that they may not otherwise be able to visit.

Regardless of how you give, the team at CTS Financial Group is here to support your journey.