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Gifting to Heirs**

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**Gifting to Heirs**

**Passing Down Wealth: Deciding Between Gifting Now or Gifting Later**

We’ve done great work together that’s helped you build your wealth, and you might be considering whether it’s time to start transferring that wealth to the next generation.

But when is the right time to do that? Is it now, or do you want them to receive that wealth after your death? While you should definitely explore this decision with us so we can dive into your specific situation, there are some general elements to consider in making this decision.

Let’s go over a few of those in this article.

**Does The Decision Make Sense?**

The first thing you need to consider in making this decision is does it make economic sense to transfer assets to your family now? Can you afford it? This is the most important question to answer because if you can’t afford it, the point is moot. If you need to keep those assets in your estate to cover your own expenses, then gifting during your lifetime – or at least right now – isn't feasible.

To illustrate this point, let’s say you have a family business or asset that makes up a majority of your family’s net worth and it’s the only source of income for your family; it’s likely not a good idea to pass that down just yet.

Basically, if it doesn’t make economic sense to gift right now, you’ll likely want to keep wealth in your estate – including investments, stocks, land, a vacation home or real estate – so that the net worth of your estate can continue to grow. The bonus here is this can make your bequests more robust in the future.

**But If It Does Make Sense...**

Let’s say it does make economic sense to gift now during your lifetime. In that case, you want to first explore if you’re ready to give up control of the assets you're gifting. For many clients, this might be the most challenging because we like to be in control – especially if it’s something we’ve built and poured into, like a business.

The second thing to explore is whether your heirs are ready to take over the asset. Here, you might want to consider whether there’s conflict you want to avoid or if your heir is prepared to manage the asset. This is especially relevant if you’re passing down a business – is the person you’ve chosen ready to run the business successfully? Here, you also want to consider whether to distribute some assets equally (if you have multiple children) or who to choose if you don’t have multiple children (business partner? Close friends?).

**What Are the Tax Implications?**

Whether you gift now or gift later, you’re going to deal with some taxes. Gifting now comes with gift taxes, and gifting after death comes with estate taxes.

The IRS has the Uniform Estate and Gift Tax Exemption amount, which in 2022 is $12.06 million, up from $11.7 million in 2021. This means you could give away $12.06 million in your **lifetime** tax-free; however, anything you give above that amount, even at death, will be subject to estate taxes. You could also hold on to that $12.06 million and give it as a bequest when you die.

But the **annual** gift tax exclusion stipulates that you can give anyone up to $16,000 a year that’s exempt from taxes, up from $15,000 in 2021. If you are married, your spouse can also give $16,000, for a total of $32,000.

This allows you to give $16,000 (or $32,000) away to anyone without paying any federal gift taxes. It’s a great way to lower the amount of your estate if you think you might have an estate tax problem, as well as to watch your loved ones benefit from your giving, instead of waiting until death.

One neat thing about giving during your lifetime is you can see what your kids and grandkids do with those assets. You can see how they manage, whether they invest or if they waste the money. This can also help give you a feel for who does a better job with the opportunity and how they manage those gifts, which can help you make decisions when it comes to leaving a larger bequest after your death.

Keep in mind that there are also some gifts that don’t count toward the annual gift tax exclusion – including paying for your child’s or grandchild’s tuition or paying for medical bills. However, you have to pay the tuition straight to the school or the bills straight to the medical facility, and you don’t have to report those for gift taxes.

**We’re Here for You**

Deciding whether to gift is a complicated decision and one that’s best made with the help of a trusted financial professional. Each person’s situation is unique and exploring what would be the best course for you considering your unique situation is key.

If you’re considering gifting strategies, call us and we’ll help ensure you’re making the right choice for you.

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