PREPARING NOW FOR 2019

GIFTING STRATEGIES

For many of us, charitable contributions and gifts are a key part of the fiscal year. Unfortunately, the simple joy of giving can become more complex when taxes are factored in. Luckily, with a little planning, it's not difficult to create a sound gifting strategy.

ANNUAL EXCLUSION GIFTS

The first tax consideration is the annual exclusion: the limit for tax-free gifting is $15,000 per person in 2018 or $30,000 for married couples, should the election be made to split gifts.

LIFETIME GIFTS

The lifetime gift exemption rose from $5,490,000 in 2017 to $11,200,000 in 2018. For those who used the entire exemption as of Dec. 31, 2017, you can gift an additional $5,710,000 in 2018 if it meets your goals. We expect another inflation adjustment for 2019.

CHARITABLE CONTRIBUTIONS

Your charitable contributions must be made before Dec. 31 to be taken as a deduction on this year's return. If you do intend to make gifts, check in with your advisor. Consider gifting in conjunction with a review of your portfolio, since you may have highly appreciated stock that could be used for additional tax leverage on your gift. By gifting appreciated securities, you'll avoid paying capital gains taxes on securities you've held for more than a year. This strategy can also be applied to some appreciated assets other than publicly traded securities, such as privately held company stock or real estate. Using less liquid assets adds a layer of complexity, but the potential capital gains savings can be significant. Regardless of the source of your donation, however, donor-advised funds can be an excellent way to help facilitate the gift. This strategy allows you to take an up-front charitable deduction for the full fair-market value of the assets contributed to the account. You can then send gifts from the fund to your favorite charities over a period of time.

While donor-advised funds have become much more popular in the last few years, private foundations are still a viable option. The key benefits of the donor-advised fund are that they require significantly less administration and can be created with a much smaller contribution (average minimums are $5,000). However, a private foundation allows for greater flexibility in how the assets are invested, where grants can be made, and how involved your family can be in the administration and mission of the foundation. Generally, the minimum amount required to make the administration costs of a foundation worthwhile is $250,000.

GIFTING STRATEGIES TO NOTE

- If you pay for an individual's medical or education expense and you write checks directly to the institution, your payment is not considered a gift, and there's no limitation on your contributions.
- Contributions to 529 plans are considered a gift. If you're actively participating in a 529 plan, make your 2018 contributions soon to take advantage of your 2018 gift tax exclusion. Also, keep in mind that over 30 states now offer some tax deduction or credit for residents' contributions to those plans. Be sure to talk to your tax advisor about your 529 plans.
- If you do intend to make a gift for 2018, try to do it by Dec. 1. For your contribution to be considered complete, the check must be deposited on or before Dec. 31, and it's always a good idea to give the recipient additional time.
- One approach for parents of children with earned income is to use part of their annual gifting exclusion to fund a Roth IRA for each working child. This strategy helps transfer wealth to the next generation in a tax-efficient manner.
- Those who own life insurance in an irrevocable life insurance trust should keep in mind that premiums paid on these policies are considered gifts and will count against your annual exemption.