AN UPSIDE TO INFLATION?

Larger Gift Tax Exemptions!

> Families who have the assets to do sophisticated planning, may never see such a ripe opportunity to move assets down to future generations.

Rising inflation has been headline news over the past several months. While reasonable minds may debate the causes of the recent uptick in prices or whether it is "transitory" or longer lasting, one positive thing to come out of it is an increase in the amounts that may be gifted to family members and friends without gift or estate taxes. The new annual gift tax exclusion amount is $16,000 per donee (from a single donor), up from $15,000 in 2021. The lifetime gift and estate tax exclusion amount has climbed to a record $12,060,000 per person.

Here's how the exclusions work. I can gift each of my children, for example, $16,000 in 2022 without having to pay a gift tax or having it chip away at my lifetime exemption. Should my wife "join" in the gift, we are able to gift $32,000 to each child. If we want to gift to our daughters-in-law, we can do that as well, also to the tune of $32,000 apiece. All this means that if we are trying to reduce our estates, we can give away $128,000 to our two sons and their spouses, all free from gift taxation. Additionally, if we gift assets that are likely to appreciate, we are removing the appreciation from our estates as well.

One caution - for lifetime gifts, the recipient of the gift receives the donor's tax basis. For that reason, it is not a great idea to gift already appreciated assets since the donee will have an imbedded capital gain. It is better to save those appreciated stocks and mutual funds for your favorite charity. Generally, a taxpayer may deduct the fair market value of the asset on the date gifted and the charity is able to sell without paying a capital gains tax. The rule is different for assets gifted at death. In such cases, there is a "step up" in cost basis to the value of the asset on the donor's date of death – erasing any capital gain.

Gifts that go above and beyond the $16,000 per person, per year amount (or direct payments for tuition or medical expenses) reduce a donor's lifetime exemption amount. Gifts that do not qualify for any other kind of exemption count against the $12,060,000 lifetime amount. It is a cumulative figure and accounted for on a gift tax return. Whatever is not used during a person's life, is available for use at death on the estate tax return. The $12 million+ amount is the largest in the history of the tax and allows for significant wealth transfers. For a married couple having made no prior taxable gifts, the total that may be gifted is $24,120,000!

The hitch is that the current amount is scheduled to "sunset" on December 31, 2025 and return to $5 million (adjusted for inflation). This was part of the reconciliation that was used to enact the Tax Cuts and Jobs Act which was signed into law at the end of 2017. Admittedly, it isn't every household that has to worry about the amount decreasing from a combined $24.12 million per couple to less than half that amount, but for those families interested in significant wealth transfers, planning should start sooner rather than later.

Challenges notwithstanding, using investment portfolios to reflect an investor's values is a trend that is with us to stay. It is important for anyone pursuing such a strategy to stay informed and be aware of the potential conflicts. Keeping a long-term view and having a sense of perspective is always healthy in investing and ESG investing is no different.

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