Smart Gifting Techniques for the Holiday Season: A Tax-Efficient Guide

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The holiday season is a time to share joy, and financial gifts can be a thoughtful way to provide lasting benefits for loved ones or support meaningful causes. By leveraging tax-efficient strategies, you can maximize your generosity while reducing your tax burden. Here's how to make the most of your holiday gifting.

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1. The Annual Gift Tax Exclusion

One of the most straightforward ways to give is through the **annual gift tax exclusion**. For 2024, you can gift up to **$18,000 per recipient** ($36,000 for married couples splitting gifts) without incurring gift taxes or reducing your lifetime exemption.

How It Works:

- You can give cash, stocks, or other assets to as many recipients as you like.
- Gifts within the exclusion amount don't require filing a gift tax return.

Example:
A grandparent with five grandchildren could gift $18,000 to each, reducing their taxable estate by $90,000 in one year while helping their grandchildren fund college or other needs.

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2. Qualified Charitable Distributions (QCDs)

For retirees aged **70½ or older**, a **Qualified Charitable Distribution (QCD)** allows you to transfer up to **$100,000 annually** directly from your IRA to a qualified charity. This strategy combines tax benefits with philanthropy.

Why QCDs Are Smart:

- The distribution counts toward your **Required Minimum Distribution (RMD)** but is excluded from taxable income.

- Reducing your taxable income can help you avoid higher Medicare premiums and reduce the taxability of Social Security benefits.

Example:
A retiree with an RMD of $60,000 donates $30,000 as a QCD to their church. This satisfies half of their RMD while reducing their taxable income by $30,000.

Tip: If you don't need all of your RMD for living expenses, a QCD is an excellent way to support your favorite causes while optimizing your tax situation.

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3. Gifting Appreciated Assets

Giving appreciated stocks or mutual funds is another smart way to gift during the holiday season.

Why It's Effective:

- The donor avoids capital gains taxes on the appreciation of the asset.
- The recipient receives the asset with the original cost basis, which may result in lower taxes when they sell, depending on their income bracket.

Example:
A parent gifts $18,000 worth of appreciated stock to their adult child. The parent avoids paying capital gains on the $10,000 gain, and the child can hold or sell the stock, potentially incurring lower taxes if in a lower tax bracket.

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4. Charitable Gift Funds (Donor-Advised Funds)

For those looking to make a significant charitable impact, contributing to a **donor-advised fund (DAF)** during the holiday season can be a flexible and tax-efficient choice.

How DAFs Work:

- You contribute cash or appreciated assets to the fund, receiving an immediate tax deduction for the year.
- Over time, you recommend grants to charities of your choice.

Benefits:

- Contributions of appreciated assets allow you to avoid capital gains taxes while receiving a deduction for the full market value.
- You retain control over the timing and recipients of grants, allowing for strategic, long-term giving.

Example:
A couple contributes $50,000 of appreciated stock to a DAF. They avoid paying capital gains tax on $20,000 of appreciation and receive an immediate $50,000 tax deduction. Over the next several years, they use the DAF to donate to charities each holiday season.

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5. Estate Planning Considerations for Large Gifts

If you're making significant financial gifts, it's crucial to ensure they align with your broader estate plan. Large gifts can help reduce your taxable estate, particularly for high-net-worth individuals.

Lifetime Gift and Estate Tax Exemption:
For 2024, the **lifetime exemption** is **$13.61 million per individual** ($27.22 million for married couples). This exemption applies to both gifts made during your lifetime and assets passed to heirs upon death. Gifts exceeding the annual exclusion reduce the lifetime exemption.

How to Use It Strategically:

- Consider gifting larger amounts to children or grandchildren to fund trusts or other financial vehicles.
- Use irrevocable trusts to transfer assets while retaining some control over how the funds are used.

Example:
A wealthy couple decides to gift $500,000 to an irrevocable trust for their grandchildren's benefit. This amount exceeds their annual exclusions, so it reduces their combined lifetime exemption to $26.72 million. The trust grows outside their estate, potentially saving millions in future estate taxes.

Tip: Coordinate with your financial advisor and estate attorney to ensure large gifts align with your long-term goals and tax strategies.

Final Thoughts

Holiday gifting can go beyond wrapped presents by providing meaningful financial support or charitable contributions. Strategies like using the annual gift exclusion, making QCDs, gifting appreciated assets, or contributing to donor-advised funds can make your generosity tax-efficient and impactful.

By integrating gifting with estate and financial planning, you can maximize the joy of giving while creating lasting benefits for your loved ones and the causes you care about.

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Avery Hayes is a dedicated Financial Advisor at Hayes Advisory Group with a focus on strategic planning and education. With a passion for helping clients navigate the complexities of financial management, Avery specializes in creating and implementing comprehensive plans that encompass investment management, financial planning, and tax planning. Avery's approach is rooted in a deep understanding of the financial landscape and a commitment to educating clients, empowering them to make informed decisions about their financial future. Avery also helps with educational courses taught through employer classes, classes taught for Federal employees, and The Prepare Institute, a 501©3 non-profit educational institution.

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