

Seven Financial Gifting Tips for Year-End

Consortium of Financial Advisors Comes Together to Provide Gifting Strategies that Can Also Have Big Tax Benefits

By Don Patrick, MBA, CFP®

As we prepare to say goodbye to 2007 and hello to 2008, there are often two things on people's mind: holiday gifts and tax planning. The two goals can often be achieved simultaneously.

The end of the year is filled with stress as people struggle to meet the social and philanthropic demands of the season, search for the perfect holiday gifts, and worry about the fiscal ramifications of the past year. But by giving loved ones financial gifts, the stresses of gift giving and financial planning can be lessened.

Here are seven financial gifting and tax planning tips from seven financial professionals to help reduce stress and taxes for the gift givers – while increasing wealth and financial security for those fortunate enough to be on the receiving end.

Tip #1 -- Transferring Wealth through IRAs

In this theoretical example, a widow or widower over the age of 60 with an estate in excess of \$3 million and a traditional IRA valued at \$1 million or more make annual withdrawals from a traditional IRA over a period of years and use the after-tax proceeds to purchase a cash value permanent life insurance policy with a death benefit of \$1.5 million that would be owned by an Irrevocable Life Insurance Trust (ILIT). After the trust is set up, this theoretical person could make annual gifts totaling \$24,000 – \$12,000 to a son and \$12,000 to a daughter, although larger sums are possible if either child is married. Then using Crummey Powers, the children would reject their annual gifts which would then be applied to the life insurance premiums. The cash value life insurance policy owned by the ILIT is not included in the insured person's estate and will pass free of both income and estate taxes to the trust's beneficiaries.

Tip #2 -- Giving the Gift of Stocks

Due to stock market volatility, some investors may be holding undervalued stocks. Investors should always think twice about selling undervalued or down-market stocks because stocks that are undervalued today may regain value in the long term. Instead of selling them outright, it may be a good idea to gift those currently undervalued stocks to a loved one. The caveat, according to Schwartz, is that the gift giver could be subject to the gift tax. There is, however, a \$60,000 lifetime exemption for which the gift giver is eligible if they complete form 706 with their tax returns.

Tip #3 -- Gifting Education

Many people emphasize the importance of education to their loved ones. Opening a 529 plan for a son, daughter, niece, nephew, grandson or granddaughter is a great way to put your money where your mouth is. The 529 plans can be an excellent vehicle to both reduce estate taxes and transfer wealth. Under ordinary circumstances, \$12,000 for single gift givers and \$24,000 for married couples can be gifted without incurring gift taxes, which effectively removes the assets

from the estate. However, a special tax provision actually lets investors contribute a higher amount to a 529 plan. Currently you can gift a lump sum of \$60,000 for single filers or \$120,000 for married couples to a 529 plan, tax-free, which counts toward five years' worth of annual exclusion gifts.

Tip #4 -- Giving Gifts of Real Estate

A residence, vacation home, farm, acreage, or vacant lot may have appreciated in value through the years such that its sale would mean a sizeable capital gains tax. Making a year-end gift of real estate can help investors avoid capital gains tax. Additionally, if the real estate is given to a qualifying charitable organization, the investor may be able to receive a tax deduction based on the full fair market value of the property. It is also possible to make a gift of your home, farm, or vacation home so that you can continue to use the property as long as you stipulate while receiving a tax deduction in 2007.

Tip #5 -- Life Income Gifts

If an investor is considering making a large monetary gift, a "life income gift" may be an option. By transferring cash or stock to a qualifying charity and establishing a "charitable remainder unitrust" or "charitable remainder annuity trust" an investor can receive annual returns totaling 5 percent or more. This income would be paid to the investor or a loved one for life, after which the assets would be distributed to the charity. By gifting in this way, an investor can effectively increase his or her income and make a meaningful and tax-deductible contribution simultaneously. This strategy also allows an investor to avoid capital gains taxes that would otherwise be incurred on the sale of stock.

Tip #6 -- Unified Credit

Every American gets an automatic unified tax credit against Federal estate and gift taxes of \$780,800 from 2006 through 2008, which is equivalent to transferring \$2 million tax-free to heirs. If you are married to a U.S. citizen, as a couple, you can transfer the equivalent of \$4 million to your heirs. This strategy is referred to as a 'unified' credit because federal Gift and Estate Taxation are integrated into one unified tax system. There is no estate tax on the first \$2 million until the end of 2008 on taxable gifts and transfers at death.

Tip #7 -- Charitable Gift Annuity

A Charitable Gift Annuity (CGA) is a contract that allows the transfer of an investor's assets to a charitable organization. As a result of the transfer, the CGA will then provide monthly benefits to the investor, where commercial annuity contracts do not allow this benefit. Additionally, the annuity contract guarantees payments that will never decrease, but remain constant for the life of the annuitant. A charitable gift annuity is one of the simplest, least expensive and most conservative charitable planning tools available. A charitable gift annuity is a wonderful way to increase your present monthly income and provide a charitable deduction in the tax year of the asset transfer, with a five-year carry forward, if needed.

Individual situations will vary. Please contact your tax advisor for your specific situation.

About Don Patrick and Integrated Financial Group

Don Patrick, Managing Director of Integrated Financial Group in Atlanta, Georgia, has been serving clients as a financial advisor for over 26 years. Patrick earned his MBA from the University of Southern California. Undergraduate studies were completed at Loyola University Los Angeles in the areas of finance and economics. He served as a pilot in the U.S. Air Force, graduating first in his class. He is also a member of the Financial Planning Association, the nation's largest organization of professionals dedicated to championing the financial planning process. He has completed additional studies and passed a rigorous certification examination and is authorized to use the CFP® mark of distinction. Integrated Financial Group, an independent financial planning consortium of advisors, delivers practical, effective financial solutions aimed at addressing the long-term financial planning needs of their clients.

For five years listeners in south Florida relied on Patrick to deliver sound, accurate financial advice as co-host of a radio talk program. He taught financial planning at Georgia State, North Metro Technical College and Gwinnett Technical College. Listed in Who's Who of Investment Management Consultants, Patrick recently authored a book titled *Keep Your Nest Egg from Cracking – What You Need to Know*.

Visit www.integrated-financial-group.com for more information about Mr. Patrick and the consortium of advisors.

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