Halliday Private Trust
Integrated Trust Solutions for Clients

Trust Connection

A Monthly Report of Trust News and Information April 2021

Welcome to *Trust Connection*, our monthly newsletter highlighting Trust news and information. Each month we will feature timely articles of interest.

About Us

At Halliday Private Trust, it is our mission to assist our clients in the process of providing solutions, specifically through a wide range of financial advice.

Since 1982, we have utilized a full spectrum of financial services to help our clients navigate every major hurdle in their financial lives. Because we are an independent financial services firm, we utilize an open architecture approach to locating the most suitable investment options for our clients.

Our role is to help clients make smart decisions about their money. We understand that each client has unique needs and requires personalized solutions based on their goals, objectives and concerns.

The Spirit of Gifting

One of the greatest achievements in life is the ability to give to others. What makes it even better is when you can receive a tax break by doing so. Distributing one's wealth in the most tax-advantageous way during life, as well as at one's death, is a key financial planning consideration. Following is an examination of advantages and some guideposts for gifting effectively.

Defining Annual Gift Exclusion

The annual gift exclusion is the amount of money that a person may transfer to another as a gift without incurring a gift tax or affecting the unified credit. Gift tax is a federal tax on any gifts you give during the year that are worth more than the annual gift tax exclusion, which is $15,000 for gifts given in 2021 (the exclusion was the same in 2019 and 2020). This is up from $14,000 in 2014, 2015, 2016 and 2017. There are no state gift taxes. This annual gift exclusion can be transferred in the form of cash or other assets.

How Does the Annual Exclusion Work?

The annual exclusion applies on each gift made. For gift tax purposes, a gift is any money, property, or other asset you give someone else without the expectation they will pay you back. This includes giving money in any form, interest-free loans, real estate, personal possessions, and intangible assets such as stock options.

If you sell something for less than its fair market value, then what you sold also qualifies as a gift. Fair market value (FMV), is the amount you can reasonably expect someone to pay if you sold something on the open market. The difference between the sale prices and the FMV is the amount that counts as a gift. For example, if your antique car is reasonably worth $50,000 but you sell it to your son for $10,000, then you have given a gift of $40,000 ($50,000 - $10,000) and will need to file a gift tax return for that $40,000.

Generally, gifts are a taxable event, with some exceptions. The following gift exceptions are not taxable:

- Gifts that are less than the year's annual exclusion
- Spousal gifts
- Medical expenses (must pay the medical facility directly)
- Tuition expenses (must pay the educational institution directly)
- Political gifts

Qualifying charitable gifts are also deductible from the value of the gift made. Otherwise, taxpayers cannot deduct the value of gifts they make. For more information, please refer to IRS Publication 559, Survivors, Executors, and Administrators.

To qualify for an annual exclusion, taxpayers must submit copies of appraisals, copies of relevant documents regarding the transfer, and any documentation of unusual items shown on the return.

Continued >>

A LOCAL TRUST SOLUTION

Call us today at (800) 786-1598 to learn more about working with Halliday Private Trust.

For information and assistance, please feel free to contact one of our Trust Advisors:

- Michael F. Fleming, Esq.
- Sean S. Mohammadi

725 Glen Cove Avenue
Glen Head, NY 11545

4 Executive Park Drive
Clifton Park, NY 12065

1577 Fruitville Road
Sarasota, FL 34236

Giving away more than $15,000 requires that you complete a federal gift tax return, although you don't actually have to pay any tax until your combined lifetime gifts (in excess of the annual exclusion) exceed the lifetime gift tax exclusion, which is $11.70 million in 2021 (up from $11.58 million in 2020).

If your goal is to transfer assets to your heirs while minimizing taxes, a revocable trust is something to consider.

Lifetime Gift Tax and Estate Tax Exemption

Your lifetime gift tax exemption is also the same as your estate tax exemption and they are often referred to together as part of the unified tax credit. Estate tax applies when your estate, which is the sum of all the money, property, and assets owned, is transferred after your death. It should be noted that very few people pay estate tax because one only needs to pay on the value of the estate tax that exceeds the exemption amount.

For 2020, the lifetime gift tax exemption was $11.58 million. This means that if you are married, last year you and your spouse could have given away a total of $23.16 million before paying the gift tax. For 2021, the numbers are $11.7 million and $23.4 million. These new exemption thresholds were established by the Tax Cuts and Jobs Act (TCJA), which expires in 2025. The federal estate and gift tax exemption more than doubled by the TCJA. Prior to the TCJA, this amount was around $5 million. It is reasonable to think that this estate tax exemption will change again in the future and move either up or down.

The $15,000 annual exclusion means you can give $15,000 to as many people as you like. For example, this means you can give each of your three grandchildren $15,000 apiece in any given year, for a total of $45,000. Any gift you make to a single person in excess of $15,000 counts toward your combined estate and gift tax exclusion. This is the amount you are allowed to leave in your estate or give as gifts during your life, tax-free.

Digging deeper, let's assume you gift a grandchild $315,000 in 2021. You will exceed the annual exclusion by $300,000 and your lifetime estate exemption will also decrease by $300,000. If that was the only gift you ever gave, your new exemption is $11.4 million. At the time of your death, assuming the estate tax exemption rate remains unchanged, then your estate will only have to pay estate tax on its value exceeding $11.4 million.

What's Next?

It is nearly impossible to know when estate tax exemptions will change. It is also difficult to know when other changes may occur, particularly in light of the current pandemic and economic crisis, which continues to take center stage and will for the foreseeable future. It is likely that estate tax exemptions will change, so it is critical is to discuss the potential impacts of estate tax exemption changes with your trusted advisors every 12-18 months if you aren't doing so already.

This publication contains general information only, and National Advisors Trust Company is not, by this publication, rendering accounting, financial, investment, legal, tax or other professional advice or services.