



Minimize Taxes With Estate Planning and Gifting



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A comprehensive estate plan that includes gifting can help ensure your wealth is transferred according to your wishes and help you manage your estate's tax bill. Estate tax and gifting rules are complicated, and this overview covers only a few of the many issues to consider. Make sure to consult your financial advisor, investment professional, tax advisor or attorney for assistance with designing an estate plan that fits your specific needs.

Reduce estate taxes by giving annually

Under current 2024 tax law, individuals can leave their heirs up to \$13.61 million without federal estate tax liability.¹ Taxable estate greater than \$13.61 million may be subject to estate tax at graduated rates up to a maximum of 40%.¹ Gifting not only allows you to share your wealth with your loved ones during your lifetime, it also decreases the value of your estate, which may reduce any estate tax your estate may have to pay after your death.

In 2024, each taxpayer is allowed to give a maximum of \$18,000 per recipient to as many people as they choose without any gift tax ramifications.¹ Married couples can give \$36,000 to each individual. So, for example, if you have four children and three grandchildren, in 2024 you can give \$18,000 to each for a total

of \$126,000, or together with your spouse, you can give a total of \$252,000. The amount of this annual gift tax exclusion is subject to change each calendar year. However, in any one year, you may give as many people as you choose gifts up to that year's annual exclusion without gift tax liability.

Know your lifetime total taxable gift limit

Gift taxes are based on all property transferred throughout your lifetime. In 2024, each person has a lifetime gift tax exemption of \$13.61 million. Not only are gifts that fall under the annual exclusion exempt from gift tax in the year they are made, they also are not included when adding up the lifetime total of gifts given.

BY THE NUMBERS

- **Two for one:** With thoughtful estate planning, you may be able to reduce your beneficiaries' tax bill and gain peace of mind.
- In 2024, the federal estate tax exemption is **\$13.61 million per individual** and the maximum tax rate is **40%**.¹

¹ Source: irs.gov.

KEY POINTS

- In 2024, taxpayers are able to gift \$18,000 per individual annually tax free.
- No gift tax return filing is required on the annual gifting allowance.
- No gift tax has to be paid until your lifetime total taxable gifts exceed the applicable exemption amount.
- Gifts to a spouse are generally not taxable.*

*If your spouse is not a US citizen, special limits apply.

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.



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Gifts above the annual exclusion limit are considered taxable gifts and require the filing of an IRS gift tax form. These amounts are also applied to the lifetime exemption. However, you will not actually pay any gift tax until your lifetime gifting total is greater than the \$13.61 million limit (or the applicable limit in effect at the time). In addition, gifts to your spouse or to charity generally are not taxable.

College gifting options

If your goal is to pay for the future college expenses of your children or grandchildren, you may want to consider using your annual gift tax exclusion to establish a 529 college/education saving plan. You also can use the unique accelerated five-year gifting feature of a 529 plan to make a combined gift of up to \$90,000 (\$180,000 per married couple) to each beneficiary. This falls under the \$18,000 a year tax-free limit as long as no additional gifts are made to that beneficiary for four years after the year during which you make the one-time gift.² However, in the event of your death before the end of the five-year period, a pro-rata portion of the gift will be added to your estate for estate tax purposes.

Here is another option: You can make payments directly to a qualified institution for tuition or to a health care provider for medical expenses — on behalf of someone else — without being subject to gift taxes. The gift tax exclusion for tuition and medical expenses is in addition to the annual exclusion per recipient.

Using the unlimited marital deduction

The IRS provides special tax considerations for spouses. Under what is called the unlimited marital deduction, any amount may be transferred to your spouse, during your lifetime or at death, without incurring either federal gift or estate tax, provided that both parties are US citizens. (If not, different rules apply.) Therefore, any estate taxes that might be due upon the death of the first spouse can be avoided by leaving all of the estate to the surviving spouse.

² Consult your tax advisor about gift taxes and reporting. Amounts in an account that were considered completed gifts by the account owner will not be included in the account owner's gross estate for federal estate tax purposes. However, if the account owner elected to treat the gifts as having been made over a five-year period and dies before the end of the five-year period, the portion of the contribution allocable to the remaining years in the five year period would be includable in computing the account owner's gross estate for federal estate tax purposes. Gift limits current as of 1/1/24; tax rules are subject to change.

Tax advantages of charitable gifts

Gifts to charities generally are not subject to gift taxes. Lifetime charitable donations also have two other advantages — they are eligible for income tax deductions and can reduce the size of the donor's estate.

Charitable bequests made upon death, via a will or a specially designed trust, may also generate estate tax savings. For example, let's say Joe and Sheila Smith each have \$13.61 million in separately owned property.¹ They have no children and wish to leave as much money as possible to their favorite charities. When Joe dies, he could give all of this property to these charities and there would be no federal estate tax due upon his death. Sheila could continue to use her own assets for her support and then leave the remainder to charity, again avoiding any estate taxes. Alternatively, Joe could leave everything to Sheila and have no estate taxes because of the marital deduction. When Sheila dies, she would leave all of the remaining property to charity, and her estate would get the full deduction.

The value of trusts in estate planning

Irrevocable trusts can be valuable estate planning tools that may produce substantial estate tax savings. Trusts designed to hold life insurance policies can help keep the proceeds from the policies out of your estate. Other types of trusts can accomplish different objectives, such as facilitating charitable giving or effectively combining the use of the estate tax exemption and the unlimited marital deduction.

¹ Source: irs.gov.

Complex federal and state laws can apply to the assessment of estate and gift taxes. In addition, some gifts and bequests can generate an income tax liability for the recipient. It is important to consult your estate planning professional, tax advisor or attorney to determine which gifting and estate planning strategies may work best for you.

Contact your financial advisor or investment professional for more information or visit mfs.com.