



# FAMILY MATTERS

Insights on key topics—  
through a multi-generational lens.

TOPIC:

## GIFTS TO FAMILY AND CHARITIES DURING YOUR LIFETIME

---

In recent years, we've seen an increasing number of clients make substantial gifts to children and charities during their lifetimes, so they can see and participate in the benefits.

For example, some parents choose to support an adult child's purchase of a home that allows the child and his or her family to live closer to the parents than would otherwise be possible. If you are considering making a substantial gift, this installment of Family Matters can help you address practical considerations and avoid common pitfalls.

We created the *Family Matters* insight series to spark ideas and spur conversation among family members on a wide range of important financial topics. They're purposely written as a primer for more in-depth discussions with your Calamos Wealth Management advisor on how the matters presented will apply to you and your family's unique situation. We hope you find that the multi-generational lens by which topics are presented promotes pass-along readership to multiple family members. Your Calamos Wealth Management advisor is available to all members of your family to provide guidance on matters you care about most.

*Nadia and Kevin Kim fell in love with the tropic charm of Coral Gables, Florida during Kevin's hospital residence there thirty years ago and never left. Nadia, 57, is a corporate attorney for one of Miami's largest commercial builders. Kevin, 60, has a thriving ophthalmology practice with six locations from Miami up to Jupiter. Kevin anticipates selling the practice to his partners after another five years; a transaction likely to generate several million dollars.*

*Their son, Daniel, and his wife, June, currently live forty-five minutes north in a modest home that has allowed them to save aggressively—but now feels cramped as their two small children approach school age. Daniel would love to shorten his commute to downtown Miami, and June wouldn't mind a better kitchen in which to apply the cooking talents behind her successful line of Korean cookbooks.*

*Daniel and June's ideal would be to move close to Dan's parents, but the houses they envision enjoying are a little out of reach.*

## Giving a down payment

"In South Florida, where real estate prices are high, we're seeing more and more people opting to make significant gifts to adult children to help support the purchase of real estate," says Richard Gotterer, CFP®, Senior Wealth Advisor with Calamos Wealth Management. "This allows the children involved to live in the communities they desire. Often, this also means living in greater proximity to the parents, which can be a significant mutual blessing."

Gotterer describes an example in which a semi-retired couple with an overall net worth of several million dollars gave each of two adult children—both of whom had children of their own—\$300,000 toward a down payment. The couple recognized they'd much rather give such a gift while in their late 60s, and enjoy having their grandchildren close by, than to wait to

pass along wealth later. Gotterer says, "This is a classic example of enjoying their wealth and seeing their children enjoy it, too."

From an estate planning perspective, making such a gift needs consideration in context of the \$22 million lifetime exclusion for estate-tax purposes. Any gift greater than \$15,000 per person, or \$30,000 per couple, must be noted on a federal gift tax return. No income taxes are required of the recipient, but a larger gift such as Nadia and Kevin might make to Daniel and his wife does count against the lifetime exemption.

Gotterer notes a practical consideration: a gift made for the purpose of a marital home nearly always needs to be considered a gift to the couple, not to the parents' child alone. He says, "Whereas an inheritance may be protected from a child's spouse in the event of divorce, assuming the assets are not co-mingled, a gift involving a home to be shared by a family is very difficult to segregate."

To accomplish a true segregation, you would have to specify the intent and arrange for the house itself to be owned in a trust, explains Gotterer. That's a very delicate situation and unlikely to make sense either logistically or with regard to family dynamics.

Scott Poulin, also a Senior Wealth Advisor, takes this topic a point further, noting, "There is one other thing that could be done, which is to ask for a post-nuptial agreement in which the 'other' spouse recognizes the gift as a non-co-marital asset. But to do this can rip the fabric of a marriage. It's far better to approach gifts made during your lifetime, especially with regard to homes, with the recognition that they will be treated as communal property."

Poulin and Gotterer note that support of a down payment is by no means the only way to aid a child in a real estate transaction. "In some cases, giving money toward a purchase of a home isn't desired," says Gotterer. "Another option is for parents to provide private financing for the purchase of the home and take a note from the child and spouse, as with a traditional mortgage. Now the kids are paying the parents instead of a bank."

Gotterer explains that a transaction supported through financing in this way does not qualify as a gift—and therefore is not subject to the same marital property considerations. Say, for example, the child and spouse were to get divorced. The registered note still must be repaid and will be considered by the court as part of the divorce proceedings.

There are some technical issues to be careful of here, says Gotterer, including the need to set an interest rate the IRS will accept as appropriate for an arm's length transaction. The minimum rates are called the Applicable Federal Rates; their levels are favorable—"but not too favorable," says Gotterer.

Another option for supporting a real estate purchase is to combine private financing with gift giving. "We worked with a couple who lent money to a child for a house and waived the last two payments each year, assuming the prior 10 payments were made as arranged," says Gotterer. In this case, these last two payments were under the yearly threshold of \$15,000 per individual, or \$30,000 per couple, and therefore weren't required to be noted in a federal gift tax return.

### Giving to grandchildren

*In addition to supporting Daniel and June's move to Coral Gables, Nadia and Kevin would like to help jumpstart savings for their grandchildren's educations.*

"We are seeing more and more recognition of the value of 529 plans for giving money to children," says Scott Poulin. He explains that a carve-out provision in the rules for tax-advantaged 529 plans—which must eventually be used for educational purposes—allows a five-year acceleration. "With two grandchildren, this means a total of \$150,000 could be given right away, without any tax consequences or need to file a federal gift tax return," explains Poulin. (The \$150,000 figure reflects two grandchildren, each at \$15,000 per year, times five years.)

In this way, young children may eventually benefit from assets that grow tax-deferred. Gotterer says, "If the goal is to fund education for grandchildren, a significant gift into a 529 plan early in the child's life is the best scenario that exists under current law."

Note, though, that gifts to 529 plans must be funded with cash only—not with highly appreciated assets, which are the focus of the next scenario in Nadia and Kevin's gift-giving planning.

### Giving to charities

*For years, Kevin has set aside three weeks per year to travel overseas to a disadvantaged community and provide pro-bono eye health services. As he looks ahead to selling his practice in five years, he wishes to plan a gift of at least a million dollars to the global health non-profit with which he's volunteered. A key question is whether those funds should come from cash generated by the sale of the practice or from another source—such as Nadia's million-plus-dollar IRA.*

"In our work to help clients optimize their charitable giving, we regularly discuss that there are more tax-advantageous ways to gift than being a check-book philanthropist" says Gotterer.

Poulin explains, "When you give highly appreciated assets, instead of cash, the charity can sell those assets without having to pay taxes on the gains built up over the years. Since neither party pays taxes that would otherwise be owed at some point, both the charity and the gift-giver—or his or her estate—benefit."

Note this tax savings is in contrast to giving appreciated assets to children, who retain the parents' cost basis. Therefore, it's much more advantageous to give appreciated assets to charities and use the cash, instead, either to further extend the reach of charitable giving or for another purpose.

In a recent tax-law change, it's now possible to make gifts to charities directly from a required minimum distribution (RMD) from a retirement account, such as an IRA. These are called qualified charitable distributions, or QCDs. "For people who want to make charitable contributions and are beyond age 70.5, at which they are required to start drawing funds out of retirement accounts, QCDs may be an ideal mechanism for donation," says Gotterer.

Poulin offers an important caveat: "QCDs cannot be directed to a donor-advised fund—that is, a charitable organization in which you have some control."

### Next steps

*Recognizing that Daniel is likely to receive a substantial inheritance sometime in the future, Nadia and Kevin are considering the possibility of making a gift of cash or securities sooner, with the idea that Daniel (and June) may benefit from the experience of managing sizable assets before receiving even more.*

"We see two main scenarios in which parents give money to adult children with an expectation of getting to observe the benefits of those gifts," says Gotterer. "One is down payments for homes. The other is providing exposure to what it's like to manage wealth—in advance of large amounts likely to come later."

Gotterer describes a scenario in which a couple in their 80s, with a \$10 million current net worth plus \$5 million more in life insurance, decided to give each of their two children more than a million dollars outright. They recognized that receiving an inheritance on the order of \$7-10 million is both a blessing and a responsibility—and they wanted their children to be ready for both aspects. In this case, the children were both in their 50s. Each was a successful professional, but the potential to accumulate the same level of wealth as their parents seemed small.

Poulin says, "Sometimes, gifts like this are made with an implied understanding along the lines of 'handle this well, and more may be coming your way through inheritance. Having concerns about how children handle gifts and inheritances is common, but even more common is the desire to protect the assets from creditors."

As we noted previously, asset protection from spouses may not be practical when gifts are made during the lifetime of the gift giver. There are simply some protections that only work effectively in the context of funds passing via trust upon the death of a parent or other family member. That said, gift-giving during one's lifetime can result in a mutual blessing for both parent and child and is increasingly common. Contact your wealth advisor for assistance in ensuring your gift plans mesh with the financial and family realities of your situation.



Calamos Wealth Management and its representatives do not provide accounting, tax or legal advice. Each individual's tax and financial situation is unique. You should consult your tax and/or legal advisor for advice and information concerning your particular situation. For more information about federal and state taxes, please consult the Internal Revenue Service and the appropriate state-level departments of revenue, respectively. This information is provided for informational purposes only and should not be considered tax or legal advice.

You should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized advice from Calamos Wealth Management LLC. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Calamos Wealth Management LLC is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. If you are a Calamos Wealth Management LLC client, please remember to contact Calamos Wealth Management LLC, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. A copy of the Calamos Wealth Management LLC's current written disclosure statement discussing our advisory services and fees is available upon request.