



**FINANCIAL SERVICES
FOR THE GREATER GOOD®**

Gifts to Individuals Can Benefit Your Estate

There are several ways to make gifts to individuals that are free of the federal gift tax. Here are some highlights for 2008.

If you have more than enough assets for your retirement needs, you may be thinking of ways to give some of them away — either during your lifetime or at your death — and doing so in a manner that avoids gift tax and any estate tax that may apply to the gifted assets following your death. Of course, regardless of the tax benefits, many of us are interested in making gifts to family members, friends, or favorite charities simply because we want to.

In the past several years, federal taxation of taxable gifts to individuals during one's lifetime and transfers at one's death has changed dramatically. Now when someone dies, the estate¹ may be subject to estate tax if it is larger than \$2 million (for federal estate tax purposes). The following types of gifts during your lifetime will help reduce the size of your estate.

- **Cash Gifts:** You can make outright gifts of up to \$12,000 per person per year free from gift tax to as many people as you choose, provided the gifts are in a form your beneficiaries can enjoy immediately, such as cash, securities, artwork, etc. A couple with two married children and four grandchildren can give away, tax free, as much as \$192,000 per year (\$96,000 per spouse) by giving to each child, each child's spouse and their grandchildren (eight people in this example) the maximum annual gift tax exclusion amount (\$12,000). The tax benefit? These gifts, and all income and future appreciation on them, will be excluded from both donor spouses' estates for estate tax purposes.

Gifts of \$192,000 today, appreciating at a hypothetical rate of 5% per year, would grow to more than \$500,000 after 20 years. *(This example is hypothetical in nature and is not intended to represent the performance of any specific investment product.)* Regardless of your number of beneficiaries, making gifts of the full annual exclusion amount over several years can obviously remove significant assets from your estate.

- **Direct Payment of Educational or Medical Costs:** In addition to the annual gift tax exclusion described above, you can make unlimited individual gifts by paying someone's tuition (for any level of schooling) or medical costs, provided you make the payments directly to the educational institution or medical provider.

¹Your estate comprises all your assets, including investments, retirement plan assets, real estate, life insurance you own and personal belongings.

- **Lifetime Gift Tax Exclusion:** In addition to the \$12,000 annual exclusion gifts and gifts for education or medical costs, you can give away \$1 million during your lifetime without paying gift taxes. However, these gifts reduce the estate tax exemption available at your death dollar for dollar. For example, if you give away \$1 million during your lifetime, your remaining estate tax exemption will effectively be reduced from \$2 million to \$1 million. Making use of this lifetime exemption amount can be an attractive tax planning technique for assets you expect will appreciate significantly during your lifetime. The full amount of the gifts and all subsequent income and appreciation on the gifted assets will be removed from your estate for estate tax purposes.

If you are financially able to make very sizable gifts, you can give up to the value of your remaining lifetime gift tax exclusion amount without paying any gift tax. (You will have to file a gift tax return — which is different from your income tax return — where you can apply the unused lifetime gift tax exclusion to shelter all of the gift tax.)

Common Forms of Gifts

Gifts to younger beneficiaries are often aimed at establishing a fund for educational expenses, or simply as a wealth planning strategy to transfer assets in a tax efficient way or in a manner that provides long-term planning for your beneficiary. Here are a few examples of common forms of gifting.

- **529 College Savings Plans:** These plans provide some degree of income tax benefit by allowing the use of earnings on a federal income tax-free basis for the future qualified educational expenses of a beneficiary. If you choose to transfer the absolute maximum to this kind of account, you can contribute up to five times the annual gift tax exclusion amount, or \$60,000 per beneficiary (\$12,000 times 5), that's \$120,000 for taxpayers filing jointly, to a 529 plan in one year without incurring the federal gift tax. The contribution would be counted against your annual gift tax exclusion over five years, which means you would have to wait five years before making another tax-free gift of any type to that particular beneficiary. Also, some states offer an up-front state tax deduction on contributions to 529 tuition savings plans. For more information on 529 College Savings Plans, call **888 381-8283**; for the Independent 529 Plan (for private schools), call **888 718-7878**.
- **UGMAs/UTMAs:** For gifts to a minor beneficiary (a child or grandchild, for example), the simple approach is to open a custodial account under your state's Uniform Gifts to Minors Act or Uniform Transfers to Minors Act (UGMA or UTMA) and fund it with mutual funds or similar investments. This avoids the cost and complexity sometimes associated with establishing a trust and generally makes sense when gifts are relatively small.

A possible disadvantage of using custodial accounts is that the assets will belong to the minor beneficiary when he/she reaches the age of majority (typically 18 or 21, depending on your state's law), without any restrictions. If a gift to a custodial account makes sense in your situation, you should avoid serving as custodian for any account that you establish. Doing so would throw the assets into your estate (for estate tax purposes) if you die before your beneficiary reaches the age of majority.

- **Trusts:** If you are making a large gift or plan to make a series of gifts that can potentially grow into a substantial amount in time, placing the gift in trust can provide a number of benefits for you and your beneficiary:
 - You can direct when and how your beneficiary may use the assets
 - A professional trustee can be appointed to provide long-term asset management of the gifted assets
 - And the gifted assets may be protected from creditors

Establishing a trust usually involves the drafting of the trust document by an attorney, then giving the assets to the trustee to manage. The trustee can be an individual or a corporate trustee, such as TIAA-CREF Trust Company, FSB, or both. For information about TIAA-CREF Trust Company services, call **888 842-9001**.

Will You Owe Estate Taxes?

Your estate will be subject to estate tax only if the net taxable portion is greater than \$2 million (reduced by any taxable gifts made during your lifetime). Your taxable estate will typically be reduced by any amount you leave to your spouse or to charity. If you are receiving income from a TIAA-CREF life annuity, only the value of the remaining annuity payments at your death (that is, the value of your joint annuitant's remaining interest, if any, or the value of a guarantee period) will be included in your taxable estate. If your estate will be subject to estate tax, it is often wise to consider if some form of lifetime gifting strategy may allow you to transfer assets to your desired beneficiaries in a tax efficient manner, without disrupting your own financial or retirement planning needs.

To learn more about retirement planning and other TIAA-CREF financial services, visit us at www.tiaa-cref.org, [schedule an appointment online](#), or call a consultant at **800 842-2776**.

No content in this article is intended to be used, and cannot be used, for the purpose of (i) avoiding penalties that may be imposed under the Internal Revenue Code or any other applicable tax law, or (ii) promoting, marketing or recommending to another party any transaction, arrangement, or other matter. Neither TIAA-CREF nor its affiliates offer tax advice. See your tax advisor regarding your personal situation.

TIAA-CREF Individual & Institutional Services, LLC, and Teachers Personal Investors Services, Inc., members FINRA, distribute securities products. TIAA-CREF Trust Company, FSB provides investment management and trust services. **Investment**

products are not FDIC insured, may lose value and are not bank guaranteed. TIAA-CREF Tuition Financing Inc. (TFI) is the 529 college savings plans Program Manager.

© 2008 Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), 730 Third Avenue, New York, N.Y. 10017

C40467