



## Steps to Gift Transfers

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Given the amount that an individual can give away without incurring gift taxes is at a historic high and the prospect that in the near future this amount could decrease significantly many of your high net worth clients may be considering significant lifetime gifts this year. There may never be such an opportunity again, but it's important to start early in the year. Understanding the steps to making a gift enables you to help keep the process moving forward.



### Estimate the approximate value of the estate.

- Approximate the value of the estate and the assets to be transferred out of the estate.
- The value of the assets should be based on their fair market value.
- Depending on the assets in the estate, the client's CPA, or qualified appraiser should be able to make this determination.



### Identify the assets most advantageous to gift.

- Selection of the appropriate assets is important. Generally, high basis assets that have significant growth potential should be gifted. Life insurance and income producing assets are frequently selected.
- Advisors typically involved in this step are the client's CPA, attorney, and insurance professional.



### Project the potential estate tax savings of making a gift.

- The client will typically want to understand the tax benefit of making a gift. This will typically require projecting the estate tax liability with and without a gift.
- DBS can assist by conducting an estate tax analysis, but the client may ultimately want the numbers confirmed by either their CPA or legal tax advisor.



### Determine the value of the asset to be gifted.

- If the asset to be transferred by gift is a hard to value asset, such as a business interest, a qualified appraisal should be acquired; otherwise the client's CPA should be able to determine value.
- The value should be its fair market value on the date of the transfer.

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## Step 5

### **Transfer ownership of the property.**

- Title on the asset must be changed. The complexity of changing title depends on the asset.
- Gift is complete when the donor gives up the ability to control disposition of the property and the recipient accepts the gift.



## Step 6

### **Ensure the estate retains sufficient liquidity to pay taxes and other non-tax liquidity needs.**

- If potential federal or state tax liability still remains after the gift, or if other obligations exist such as funding a business buyout, equalizing the estate between business and non-business heirs, charitable endowment, or providing for an individual with special needs consideration should be given to acquiring life insurance outside of the estate in an ILIT or other vehicle.
- Potential sources of paying the premium include direct gifts to ILITs offset by “Crummey” provisions, previously transferred income producing property, and private or commercial premium financing.
- The time involved in drafting a newly established ILIT, and arranging some of the more sophisticated premium payment structures such as commercial premium financing can be lengthy and should be implemented at least the same time as starting the medical underwriting process.
- In addition to the insurance professional, the client’s legal advisor and perhaps CPA will need to be involved.



## Step 7

### **File gift tax return for the transferred property.**

- In general, all gifts except annual exclusion gifts of \$15,000 or less per recipient and certain transfers to educational or medical institutions, charitable organizations, and U.S. citizen spouses must be reported on Form 709.
- Form 709 is usually filed by April 15th following the year of the gift.
- The client’s CPA or tax attorney usually complete and file this return.

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