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Speaker 1

Welcome. My name is Andrew Baron, and this is Well... It Depends! The podcast where I present the pros and cons of financial decisions so that you, the audience, feel better informed when you are confronted with these decisions in your own life. In this episode, I ask the question, how do I financially help my kids?

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But before we begin a short disclaimer. This is being recorded on November 2, 2022. The contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment, tax or legal advice. Any strategies discussed may not be suitable for listeners specifically, and so we strongly encourage consulting with your advisor before implementing any strategies to ensure they meet your individual objectives.

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Speaker 1

Getting into it, how do I financially help my kids? Well... It Depends! Becoming a parent changes people. You reevaluate your priorities. And specifically, that comes in the form of providing for your children. Besides taking care of them physically and emotionally, in the modern world you probably want to take care of them financially as well. How should you help? First, you need to be secure yourself.

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Speaker 1

Just like how on an airplane you put your mask on yourself first. The same idea applies here. Jeopardizing your own security doesn't help the overall situation. This means you need to have a proper savings, you should be contributing to your retirement, and you should have a solid grip on any debt payments. Okay. Assuming that's taken care of, how old are the kids?

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Speaker 1

If they’re school age and by that, what we really mean is education is a concern, we're looking to fund for things like college and beyond. Please refer to my old podcast about education planning. Anyway, for education, 529 plans tend to be the primary savings vehicle. This allows you to, depending on your state, take money and contribute for your child's education that can be tax free for you in the years contributed, accumulates tax free over the years it grows and assuming it's utilized properly for education purposes, it can come out tax free as well.

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Speaker 1

What are the other options? A primary example of this is annual gifting. This allows you to take a certain amount of money per year, per beneficiary and it's tax free to give and to receive. The amount for 2022 allows you to do this for $16,000 and next year for 2023, it allows you to contribute $17,000. These amounts double for couples.

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Speaker 1

So in an example, if you and your spouse both want to make a contribution to your child, you could this year both give $16,000 or $32,000 total and next year step it up to $17,000 each or 34,000 total. Assuming these are made in cash, there are no taxes for either of you to give or receive. In the early years, this can be used to celebrate things like graduations, weddings, or maybe even a way to help for a house down payment.

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Speaker 1

Later, depending on your wealth, your health, and the number of total recipients that you might be contributing to, annual gifting can be a way of establishing your legacy now while you are still around to see your heirs enjoy it. If, however, you're gifting security instead of cash, they will receive your original cost basis. This means that it can be taxable for them when they go to sell.

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Speaker 1

If, instead, you wait until your passing, your assets receive what's called a step up. This means that on the day that you passed away, all of your assets are repriced at the new value on the date of death. This can be tax favorable, especially for things that you purchased a long time ago. What if you want to give beyond the annual amount?

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Speaker 1

You can use what's called your lifetime gift amount for substantial gifts. In 2022, lifetime amount is just over $12 million per person or $24 million for couples. This allows you to make gifts that exceed the annual gifting amount without incurring gift tax on the amounts. Trusts. Trusts can be used to provide for the future. You can control assets and how the spending is done.

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Speaker 1

This can be important if the receiving child is a minor or is otherwise too young or too immature to manage the money themselves. By using a trust, you can maintain that the money is spent responsibly, such as to maintain health, education, maintenance and support or HEMS, as it is commonly called. So far I've only discussed various ways to give money, but that's not the only way your support can go.

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Speaker 1

You can also act as the bank and provide a loan. These are bona fide loans with regular payments. However, the interest rates can be much more favorable than going to an actual bank, especially if your child has a low credit score. To recap, be financially secure yourself. If education is important to you, contributing to a 529 plan can provide money for your children to attend college and even education beyond that.

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Speaker 1

Annual gifting can be a great way to move money to the next generation, especially if you take advantage of the per beneficiary per year aspect. The lifetime gift exemption allows donors to provide substantial gifts above and beyond the annual gift amount without paying those gift taxes. Trusts can be a great mechanism to hold assets and help ensure that the money is not spent frivolously.

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Speaker 1

Besides directly contributing, you could also provide loans that can be on more agreeable terms than your children could otherwise secure from a traditional financial institution. So to answer the question, how do I financially help my kids? Well... It Depends!

Speaker 1 – Andrew Baron, CFP®, EA