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Speaker 1

Welcome, my name is Andrew Baron and this is, Well... It Depends! The podcast where I present pros and cons of different 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 give money to my heirs? But before we begin, a short disclaimer.

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This is being recorded on April 4th, 2023. The contents of this podcast are strictly for informational purposes only, and nothing said is to be taken as investment, tax or legal advice. It is important to discuss your situation with a professional for making any financial decisions as the strategies is discussed may not be suitable for you specifically.

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As you get older and start thinking about your legacy, you might be wondering what options you have to pass your money to future generations. Your options include passing money while you're alive, providing money upon your death, or setting up a trust. As with anything, all of these options include a number of challenges and benefits. Option One: Giving money while you're alive.

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One of the main perks of giving money while your life is getting to see how the beneficiary uses the money. This can be especially rewarding if the money affects them in a profound way. Additionally, you can use this as a test example to see how they respond. You can make a small gift to see if they act responsibly and if so, make larger gifts in the future.

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In the current year, 2023, you can make a tax free gift of \$17,000 per beneficiary. This doubles to \$34,000 for married couples. Additionally, payments directly to a financial institution for higher learning are excluded from this amount. Some of the cons are tax implications for larger gifts that exceed the

annual exclusion, and if the beneficiary is reckless, you might feel as though you wasted your money.  
Option Two: Leaving assets upon your passing.

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Another popular option is to leave assets to your Will. This is because you can control the distribution and specify directly who gets what. Another perk is that all of your assets are reset to the current market value as of your date of death. This can be advantageous for highly appreciated assets such as stocks.

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However, this does open the door to a process called probate. Probate is a process where a court oversees and administers a Will. This process can be expensive, lengthy and public, which not everyone wants to participate in. To get around this, you can use T.O.D. transfer on death or P.O.D. payable on death accounts which directly pay out to the beneficiary and avoid the probate process.

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Option three: Setting up a Trust. While there are many different kinds of trusts, ultimately setting up a trust is about control. This is because you can specify when and how the money comes out. Some common stipulations include, using the money for health, education, maintenance or support. Some cons of setting up a trust include, the cost of setting up and maintaining a trust, some trusts specific tax issues, and the loss of control of assets.

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To recap, giving money while you're alive provides an opportunity to see your loved ones enjoy the money. Although large gifts may have negative tax consequences. Giving money upon your death has the added benefit of the step up in basis, which can be a substantial benefit for highly appreciated assets. However, there may be a probate process for assets that are not listed as T.O.D. or P.O.D.

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Setting up a trust allows for great control even after your passing. However, there is an added cost for setting up and maintaining a trust. So to answer the question how do I give money to my heirs? Well... It Depends!

Speaker 1: Andrew Baron, CFP®, EA