

# Cliff's Notes

3rd Quarter 2021 Newsletter | Volume 20 | Issue 3

# Considerations When Making Gifts to Children

 by Cliff Robello

If you make significant gifts to your children or someone else's children (perhaps a grandchild, a nephew, or a niece), or if someone else makes gifts to your children, there are a number of things to consider.

## Nontaxable Gift Transfers

There are a variety of ways to make transfers to children that are not treated as taxable gifts. Filing a gift tax return is generally required only if you make gifts (other than qualified transfers) totaling more than \$15,000 per individual during the year.

- **Providing support**  
When you provide support to a child, it should not be treated as a taxable gift if you have an obligation to provide support under state law. Parents of minor children, college-age children, boomerang children, and special-needs children may find this provision very useful.
- **Annual exclusion gifts**  
You can generally make tax-free gifts of up to \$15,000 per child each year. If you combine gifts with your spouse, the amount is effectively increased to \$30,000.
- **Qualified transfers for medical expenses**  
You can make unlimited tax-free gifts for medical care, provided the gift is made directly to the medical care provider.
- **Qualified transfers for educational expenses**  
You can make unlimited gifts for tuition free of gift tax, provided the gift is made directly to the educational provider.

For purposes of the generation-skipping transfer (GST) tax, the same exceptions for nontaxable gift transfers generally apply. The GST tax is a separate tax that generally applies when you transfer property to someone who is two or more generations younger than you, such as a grandchild.

## Income Tax Issues

A gift is not taxable income to the person receiving the gift. However, when you make a gift to a child, there may be several income tax issues regarding income produced by the property or from sale of the property.

- **Income for support**  
Income from property owned by your children will be taxed to you if used to fulfill your obligation to provide support.
- **Kiddie tax**  
Children subject to the kiddie tax are generally taxed at their parents' tax rates on any unearned income over \$2,200 (in 2021). The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.
- **Basis**  
When a donor makes a gift, the person receiving the gift generally takes an income tax basis equal to the donor's basis in the gift. The income tax basis is generally used to determine the amount of taxable gain if the child then sells the property. If instead the property were transferred to the child at your death, the child would receive a basis stepped up (or down) to the fair market value of the property.

## Gifts to Minors

Outright gifts should generally be avoided for any significant gifts to minors. For this purpose, you might consider a custodial gift or a trust for a minor.

- **Custodial gifts**  
Gifts can be made to a custodial account for the minor under your state's version of the Uniform Gifts/Transfers

to Minors Acts. The custodian (an adult or a trust company) holds the property for the benefit of the minor until an age (often 21) specified by state statute.

- **Trust for minor**  
A Section 2503(c) trust is specifically designed to obtain the annual gift tax exclusion for gifts to a minor. Principal and income can (but need not) be distributed to the minor before age 21. The minor does generally gain access to undistributed income and principal at age 21. (The use of trusts involves a complex web of tax rules and regulations, and usually involves upfront costs and ongoing administrative fees. You should consider the counsel of an experienced estate professional before implementing a trust strategy.)

## Transfer by Gift Versus Transfer at Death

Difference in taxable gain when appreciated property is sold at fair market value (FMV) after the transfer.

Calculation Steps	Transfer by Gift	Transfer at Death
Sales price (FMV)	\$100,000	\$100,000
- Income tax basis	- \$20,000 (carryover of donor's basis)	- \$100,000 (stepped-up to FMV)
Taxable gain	= \$80,000	= \$0

# Sharing Your Money Values Can Be Part of Your Legacy

 by Cliff Robello



When it's time to prepare the next generation for a financial legacy, you might want to bring your family members together to talk about money. But sitting down together isn't easy, because money is a complicated and emotionally charged topic. Rather than risk conflict, your family may prefer to avoid talking about it altogether.

If your family isn't quite ready to have a formal conversation, you can still lay the groundwork for the future by identifying and sharing your money values — the principles that guide your financial decisions.

## Define Your Own Values

What does money mean to you? Does it signify personal accomplishment? The ability to provide for your family? The chance to make a difference in the world? Is being a wise steward of your money important to you, or would you rather enjoy it now? Taking time to think about your values may help you discover the lessons you might want to pass along to future generations.

## Respect Perspectives

The unspoken assumption that others share your financial priorities runs through many money-centered conversations. But no two people have the same money values (even relatives). To one person, money might symbolize independence; to another, money equals security. Generational differences and life experiences may especially influence money values. Invite your family members to share their views and financial priorities whenever you have the opportunity.

## See Yourself as a Role Model

Your actions can have a big impact on those around you. You're a financial role model for your children or grandchildren, and they notice how you spend your time and your money.

Look for ways to share your values and your financial knowledge. For example, if you want to teach children to

make careful financial decisions, help them shop for an item they want by comparing features, quality, and price. If you want teenagers to prioritize saving for the future, try matching what they save for a car or for college. Teaching financial responsibility starts early, and modeling it is a lifelong effort.

## Practice Thoughtful Giving

How you give is another expression of your money values, but if a family member is the recipient, your generosity may be misconstrued. For example, your adult son or daughter might be embarrassed to accept your help or worried that a monetary gift might come with strings attached. Or you may have a family member who often asks for (or needs) more financial support than another, which could lead to family conflicts.

Defining your giving parameters in advance will make it easier to set priorities, explain why you are making certain decisions, and manage expectations. For example are you willing and able to:

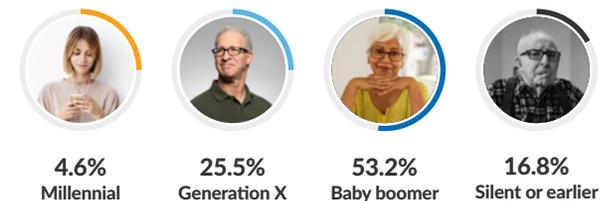
- Help fund a college education?
- Provide seed money for a small business?
- Help with a down payment on a home?
- Pay for medical expenses?
- Contribute to an account for a family member with special needs?
- Offer nonfinancial help such as child care or transportation?

There are no right or wrong answers as long as your decisions align with your financial values and you are sure that your gift will benefit both you and your family member. Maintaining consistent boundaries that define what help you are willing and able to provide is key. Gifts that are not freely given may become financial or emotional obligations that disrupt family relationships.

## The Great Wealth Transfer

Seventy percent of U.S. household wealth is held by older generations. Although younger people may be far behind today, they stand to inherit much of this wealth in the coming decades, while also accumulating wealth through their own efforts.

### Percentage of U.S. household wealth, by generation



Source: Federal Reserve, 2020 (Q2 2020 data)

## Reveal Your Experiences with Money

Being more transparent about your own financial hopes and dreams, and your financial concerns or struggles, may help other family members eventually open up about their own.

Share how money makes you feel — for example, the satisfaction you felt when you bought your first home or the pleasure of giving to someone in need. If you have been financially secure for a long time, your children may not realize how difficult it was for you, or for previous generations, to build wealth over time. Your hard-earned wisdom may help the next generation understand your values and serve as the foundation for a shared legacy.

# Life Insurance Beneficiary Mistakes to Avoid

 by Cliff Robello



Life insurance has long been recognized as a useful way to provide for your heirs and loved ones when you die. Naming your policy's beneficiaries should be a relatively simple task. However, there are several situations that can easily lead to unintended and adverse consequences you may want to avoid.

## Not Naming a Beneficiary

The most obvious mistake you can make is failing to name a beneficiary of your life insurance policy. But simply naming your spouse or child as beneficiary may not suffice. It is conceivable that you and your spouse could die together, or that your named beneficiary may die before you do. If the beneficiaries you designated are not living at your death, the insurance company may pay the death proceeds to your estate, which can lead to other potential problems.

## Examples of Accounts with Beneficiaries



Life insurance, annuities



IRAs, 401(k)s, 403(b)s



Investment or brokerage accounts, CDs

## Death Benefit Paid to Your Estate

If your life insurance benefit is paid to your estate, several undesired issues may arise. First, the insurance proceeds likely become subject to probate, which may delay the payment to

your heirs. Second, life insurance that is part of your probate estate is subject to claims of your probate creditors. Not only might your heirs have to wait to receive their share of the insurance, but your creditors may satisfy their claims out of those proceeds first.

Naming primary, secondary, and final beneficiaries may avoid having the proceeds ultimately paid to your estate. If the primary beneficiary dies before you do, then the secondary or alternate beneficiaries receive the proceeds. And if the secondary beneficiaries are unavailable to receive the death benefit, you can name a final beneficiary, such as a charity, to receive the insurance proceeds.

## Naming a Minor Child as Beneficiary

Unintended consequences may arise if your named beneficiary is a minor. Insurance companies will rarely pay life insurance proceeds directly to a minor. Typically, the court appoints a guardian — a potentially costly and time-consuming process — to handle the proceeds until the minor beneficiary reaches the age of majority according to state law.

If you want the life insurance proceeds to be paid for the benefit of a minor, consider creating a trust that names the minor as beneficiary. Then the trust manages and pays the proceeds from the insurance according to the terms and conditions you set out in the trust document. Consult with an estate attorney to decide on the course that works best for your situation.

## Per Capita or Per Stirpes Designations

It's not uncommon to name multiple beneficiaries to share in the life insurance proceeds. But what happens if one of the beneficiaries dies before you do? Do you want the share of the deceased beneficiary to be added to the shares of the surviving beneficiaries, or do you want the share to pass to the deceased beneficiary's children? That's the difference between per stirpes and per capita.

You don't have to use the legal terms in directing what is to happen if a beneficiary dies before you do, but it's important to indicate on the insurance beneficiary designation form how you want the share to pass if a beneficiary predeceases you. Per stirpes (by branch) means the share of a deceased beneficiary passes to the next generation in line. Per capita (by head) provides that the share of the deceased beneficiary is added to the shares of the surviving beneficiaries so that each receives an equal share.

## Disqualifying a Beneficiary from Government Assistance

A beneficiary you name to receive your life insurance may be receiving or is eligible to receive government assistance due to a disability or other special circumstance. Eligibility for government benefits is often tied to the financial circumstances of the recipient. The payment of insurance proceeds may be a financial windfall that disqualifies your beneficiary from eligibility for government benefits, or the proceeds may have to be paid to the government entity as reimbursement for benefits paid. Again, an estate attorney can help you address this issue.

## Review All Your Beneficiary Designations

In addition to life insurance, you may have other accounts that name a beneficiary. Be sure to periodically review the beneficiary designations on each of these accounts to ensure that they are in line with your intended wishes.

**The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.**

# What's Happening at CMR...

---

## Cliff...

The gangs all here!

Welcome to summer. My son and family are visiting for a month. With the new addition of Zade, we now have six grandchildren. Can you believe it? I am grateful and blessed.

With the lockdown and restrictions slowly being lifted, we hope that we see you in person again soon. We will continue to have virtual meetings if you prefer.

---



## Margaret...

Happy Summer Everyone... hope you are all safe and enjoying the beautiful days we been having so far! I'm looking forward to going to the beach and BBQ with my Ohana. Meet my little grandniece Amari (Margaret) lol yes, she's named after me. How cute is that! (Baylee, Amari and Haidyn)



## Whitney...

Hello Summer! Time to bust out those swim suites and soak in that sun! Can't believe it's summer already, but Jen I can't wait spend some quality time with our girls at the pool and the beach. Hope this Summer everyone has a chance takes a break from their busy schedules to enjoy some sun and spend time with their families! Remember be cool, stay in the pool!



## Roxanne...

Started the Summer off by celebrating my mom's 70th Birthday! So blessed to have her in my life. Wishing you all a great summer from my family to yours!



## Zane and Sheri...

We are so happy to introduce you to the newest addition to our family, Zade. He was born on May 21st. His brother and sister adore him and love holding him. We are truly enjoying being a family of 5.





## CMR Financial Advisors

700 Bishop St Suite 1902, Honolulu, HI 96813

808-537-2912 | [info@cmrfa.com](mailto:info@cmrfa.com)



---

### Trusted Team:

Cliff Robello

Whitney Shimatsu

Margaret Howser

Roxanne Raquedan

Sheri Cabral

Zane Cabral

---

### Mission:

Transform Families

### Vision:

Moving you to  
Financial Contentment

---

### Core Values:

- Client First
- Trust
- Genuine Care
- Diligence

---

[www.cmrfa.com](http://www.cmrfa.com)



#### Important Disclosures:

Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal. Securities offered through Registered Representatives of Cambridge Investment Research, Inc., a Broker/Dealer, Member FINRA/SIPC. Advisory Services offered through Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor CMR Financial Advisors, Inc. and Cambridge are not affiliated.