
Annual Gifting to Loved Ones: Estate Planning Benefits for You and the Recipient

The Joy of Gifting: Gifting as a Smart and Meaningful Strategy

Did you know that you can have a meaningful impact on reducing future estate taxes and help make a difference in peoples' lives by making annual gifts? Did you also know there are ways you can be involved that can make those gifts even more valuable to the recipient?

For 2025, up to \$19,000 can be gifted to anyone you choose without filing a gift tax return or impacting your lifetime estate tax exemption. For couples, that means gifting up to \$38,000 per recipient. Over time, this strategy can ensure that more of your hard-earned wealth benefits your family or friends, rather than be lost to taxes.

To illustrate, if a couple gifts \$38,000 annually for 20 years to their 35-year-old child, and those gifts were invested with an average 7% annual return, the funds could grow to more than \$1.6 million after 20 years. Without gifting, the same dollars would have accumulated in their estate. At today's 40% federal estate tax rate, gifting could yield this couple up to \$640,000 in federal estate tax savings. State estate taxes could impact this even more if you live in a state with estate taxes¹.

A Valuable Approach

When approached thoughtfully, giving can be much more than writing a check and hoping for a thank you—it can become a critical step in strengthening your loved one's financial foundation. If you are comfortable speaking with the recipient about the gift you are about to give, you can effectively “partner” with them and help them take some very thoughtful steps to starting or enhancing their own process of building wealth over time.

PSG is fortunate to manage assets for clients who make generous gifts to loved ones, as well as clients who receive those gifts.

With that in mind, here are five impactful ways recipients can use all or a portion of your gift:

5 Ways to Maximize a Financial Gift

1. Fund a Roth IRA for Tax-Free Growth

If the recipient of your gift has earned income, using a portion of the gift to contribute to a Roth IRA can be an excellent way for the recipient to begin to build long-term financial security. However, not everyone qualifies for a Roth IRA due to income limits². The recipient should check with their tax advisor to confirm eligibility.

¹ Please consult a tax advisor to learn more.

² As of the date of publication, full Roth IRA income limits are \$150,000 for an individual and \$236,000 for a married couple filing jointly. Please consult to a tax advisor.

Why it matters:

- Earnings grow tax-free for life.
- Qualified withdrawals in retirement are never taxed.
- Invested funds can be accessed penalty-free after five years for certain expenses, including a home purchase.

Tip: PSG manages Roth IRAs for clients of all ages.

2. Contribute to a 529 College Savings Plan

If the recipient has children, or is a minor themselves, funding a 529 college savings plan allows money to grow tax-free for education expenses. With the rising cost of education, this can make a meaningful impact on a loved one's future.

Key Benefits:

- Earnings grow tax-free.
- Withdrawals are tax-free when used for qualified expenses (usually education).
- Some states offer tax deductions or credits for contributions for the "owner" of the 529

Tip: A single \$19,000 gift invested in a 529 plan for a newborn could grow to over \$67,000 by the time they turn 18, assuming a 7% annual return.

3. Invest for Long-Term Growth

If the recipient doesn't need immediate access to the money, investing the funds can grow a one-time gift into a substantial financial asset over time. This growth can open doors to additional investment opportunities and long-term financial security.

An example: A single \$19,000 gift at age 20 that earns 7% on average per year, could grow to over \$559,000 by age 70.

Tip: Regular annual gifting can compound its impact, creating an even more substantial long-term investment portfolio, as outlined previously.

4. Help Recipient Maximize Their 401(k) Contributions

Most employers offer tax-deferred retirement plans to their staff such as a 401(k)s or 403(b)s. Many employees contribute less than the maximum allowed because they need their take-home pay to cover living expenses. A gift can change that.

By using gifted funds for daily expenses, recipients may be able to increase their retirement contributions- reducing taxable income and benefiting from long-term compounded growth.

Tip: Instead of a lump sum, consider gifting \$1,500 monthly with an additional \$1,000 at year-end to provide steady support and long-term benefits.

5. Pay Down Debt

If the recipient has interest bearing debt such as student loans, or is carrying credit-card balances, using a financial gift to pay down the balance can free up cash flow, save interest costs and improve financial well-being.

Why this matters:

- Reduces financial stress.
- Improves credit scores.
- Allows money to be redirected toward saving and investing.

Tip: Prioritizing the paying down of debt with the highest interest rates will provide the greatest long-term benefit.

PSG Can Help You Optimize Your Gifting Strategy

When you have spent a lifetime building wealth, how you use it should be part of a strategically crafted long-term financial plan. Annual gifting is not just an act of generosity- it is a powerful tool in wealth planning.

At PSG, we both, manage accounts that have grown from gifted funds and partner with clients to design personalized gifting strategies that align with their financial position and goals. Our mutually beneficial approach helps:

- ✓ **Reduce estate taxes** by gradually and efficiently transferring wealth.
- ✓ **Ensure financial security** by structuring gifts to support the recipient's future.
- ✓ **Align gifting with broader financial goals** for you and the recipient.

Thinking about incorporating annual gifting into your estate plan?



There is no bad time to give a gift! Call or email us to discuss your plans or learn more.

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