

## What Is Reverse Gifting?

By Xenia Woltmann

Constantin Brancusi is quoted in saying “Simplicity is complexity resolved.” Many investors have found themselves in the fortunate situation where they have experienced significant appreciation in an asset they hold. If not held in a retirement account, they may be subject to capital gains on the growth of that asset when they sell it. Another issue they face is that the asset may now hold a much larger percentage of their overall portfolio, causing more risk and inefficiency. Navigating the complexities of current tax laws is difficult. An expert can provide strategies to help, one of which is called reverse gifting.

The process of reverse gifting is quite simple, though there are a few factors to consider. If the investor were to gift the asset to another party that has a lesser longevity, and the recipient does not sell it during their lifetime, their beneficiaries will receive the asset with their date of death as a cost basis. For example, John Smith has \$300,000 worth of ABC stock, with a cost basis of \$30,000. If John were to sell the stock, he would pay taxes on the growth of \$270,000. John chooses to gift his mother, Jane, who is 85 years old his shares of ABC stock. If Jane were to sell it, she would also pay taxes on the growth of the stock based on the original cost basis (\$270,000) However, if Jane were to keep the shares until she passed away, her beneficiary would receive the stock at a stepped-up cost basis of the date she passed away. If John is the only beneficiary, he now receives those shares and can sell them using \$300,000, hypothetically, as a cost basis.

While this seems to be a great strategy, there are some considerations to be made. John’s mother is not required to leave the assets to John, she can choose to leave them to anybody she would like. If John’s mother, Jane, is in poor health and does not have assets to cover any unexpected expenses, she may be required to spend those assets for her care or to be eligible for Medicaid. It is also important to determine if either John or Jane are expected to be subject federal estate taxes. If so, this strategy may not be in their best interest. Currently, the federal estate tax and lifetime gift tax exemption is \$12.06 million, but if individual is gifting more than \$16,000 in any one year, they will need to file a gift tax form with the IRS. Another consideration is that the initial recipient, Jane in this instance, needs to live at least one year after receiving the gift. Otherwise, the beneficiary will not receive the stepped-up cost basis.



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