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Author: Existing-Reference53

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# The Ultimate Stocking Stuffer – The Gift of a GME Share. Have a merry conversation with friends and family this holiday season

[This is not financial advice. I am not a financial advisor](<https://preview.redd.it/04evpcujjb681.jpg?width=257&format=pjpg&auto=webp&s=e33bd8d220eafeed939ebdb8cab0171ec0a5b84f>)

# Gifting Stock to Family Members: What to Know

by Roger Wohlner

Gifting stock to family members may lack the pizzazz of leaving a luxury car adorned with a bow in the driveway, but it's a gift that can add value to their lives long after most other gifts have been forgotten.

Gifting stock to family members can be a key part of your clients' estate planning and can take a number of forms, both during your clients' lifetime and upon their death. Here's a look at some considerations when contemplating gifts of stock to family members.

## How to Gift Stock

There are a number of methods for your clients to gift shares of stock. The gift would typically be made with an electronic transfer from your client's account to the account of the recipient of the shares.

In general, the rules for gifting shares of stock discussed here will also apply to gifting ETFs and mutual funds.

## Lifetime Gifts

Gifts of stock can be made in lieu of giving cash. The **annual gifting limits** of \$15,000 per person (\$30,000 for a joint gift with your spouse) apply, and the value of the stock on the day of the transfer constitutes the amount of the gift.

Gifts in excess of the annual gifting limits will eat away at your clients' lifetime gift and estate tax exemption, which is currently \$11.7 million per person for federal estate taxes.

## Trusts

Instead of giving the money to a family member outright, your client might consider using a trust to transfer shares to family members. Depending upon the type of trust used, the treatment of tax and cost basis issues will vary.

## Transferring Upon Death

Stocks can be gifted to family members upon the client's death.

If they are held in a taxable brokerage account, this can be accomplished via the client's will, a transfer on death designation in a brokerage account, via a beneficiary designation in a trust if the securities are held there, or via an inherited IRA, among other methods.

Again, issues such as taxes and cost basis will vary based on the circumstances.

## ## Tax Implications of Gifting Stock

At the time the stock is gifted to a family member, there are no tax implications.

However, there are some points for your clients to keep in mind.

When gifting stock to a relative, there is no tax impact for the donor or the relative receiving the shares. If the value of the gift is within the annual gifting limits, there is nothing for the donor to file.

If the gift exceeds that amount, they would have to file an estate and gift tax return, but again, there would be no tax implications unless the gift exceeded their lifetime gift and estate tax exemption.

There are potential tax implications for the family member who receives the shares.

Travis Gatzemeier, CFP, of Kinetix Financial Planning in Flower Mound, Texas, says: "The recipient of the stock doesn't owe any capital gains taxes until the shares are sold. Any tax liability regarding capital gains is determined by the cost basis and holding period of the person who gifted the shares."

He adds: "If the stock is gifted at a price below the donor's cost basis and sold at a loss, the recipient's cost basis and holding period are determined by the fair market value on the date of the gift. If the price of the shares increases to a level beyond the donor's original cost basis, then their cost basis and holding period come back into play in calculating the recipient's capital gain.

"If the shares are sold at a price above the fair market value on the date of the gift, but below the donor's original cost basis, there is no gain or loss recognized on the sale by the recipient of the shares," Gatzemeier says.

## ## Benefits of Gifting Stock

Gifting stock to family members can have a number of benefits, depending upon the circumstances.

Brett Koeppel, CFP and founder of Eudaimonia Wealth in Buffalo, New York, says: "Gifting appreciated stock to a family member instead of simply giving cash can be a win-win for both clients and their family. This allows the client to avoid potential long-term capital gain taxes that they could owe on that position in the future."

Koeppel adds: "If the family member is in a lower tax bracket and needs to access the funds, they'll be able to sell the stock with less tax liability. This strategy is particularly effective when giving to parents who may have a lower income, or to adult children who haven't yet reached their peak earning years."

For example, clients might consider gifting stocks to their parents who are retired and in a lower tax bracket. This can have several planning implications.

First, if the stock pays dividends, the parents can use the dividend income to augment their other sources of retirement income. If their parents' income is less than \$80,000 jointly for a couple or \$40,000 for an individual, then qualified dividends will be taxed at a 0% rate.

If the shares have highly appreciated and your client's parents sell some or all of the shares, they could potentially pay no capital gains taxes if their income is below these thresholds, or 15% if their income is above these limits but still within the wide band of the tax bracket.

In some cases, if their parents die while still holding some or all of the gifted shares, they may pass these shares back to their children with the benefit of a step-up in basis, effectively wiping out any taxes on prior appreciation.

## ## Gifting Appreciated Stock to Kids, Grandchildren

In general, gifting shares of appreciated stock to children and grandchildren can make a good deal of sense for your clients. As mentioned previously, one potential benefit for your clients may surround gifting low basis, highly appreciated shares to a child or grandchild who is in a lower tax bracket.

They could conceivably sell the shares and pay a lower capital gains rate or even no capital gains taxes, depending upon their income.

However, there are several situations for your clients to be aware of when considering a gift of stock to a child or grandchild.

Brad Baldridge, CFP, a financial advisor in Greenfield, Wisconsin, and founder of the website Taming the High Cost of College, says: "If the recipient of the gifted stock is a current or future college student or the student's parent, then the gift may reduce eligibility for need-based aid. The lost financial aid often negates some or all of the tax benefits gained." Taming The High Cost of College, says: "If the recipient of the gifted stock is a current or future college student or the student's parent, then the gift may reduce eligibility for need-based aid. The lost financial aid often negates some or all of the tax benefits gained."

Baldridge adds, "The gift can have an impact in three ways:

- The stock may need to be reported as an asset of the student or parent.
- The dividends may increase the new owner's (student or parent) income.
- The capital gains when sold may increase the new owner's (student or parent) income."

Another issue that could come into play is the kiddie tax. This refers to taxes on unearned income for a child who is age 18 or younger at the end of the tax year, or one who is a full-time student between the ages of 18 and 24 whose earned income does not account for more than half of their support. Relative to gifted stock, this could include dividend income or capital gains if the shares are sold.

The Secure Act of 2019 repealed the "kiddie tax" rates from the 2017 tax reform legislation back to previous levels. Under the new rules put in place in 2020, the first \$1,100 of unearned income is tax-free, and the next \$1,100 is taxed at the child's rate. Unearned income above \$2,200 is taxed at the parent's tax rate.

Kiddie tax issues may or may not affect college financial aid, or the impact may be offset by the benefit the gifted stock provides to the child or grandchild. Regardless, your clients should be aware of this issue.

## UGMAs and UTMA's

Custodial accounts under the Uniform Gift to Minors Act (UGMA) and the Uniform Transfer to Minors Act (UTMA) can be vehicles for use in gifting stock to minor children or grandchildren. Whether they are appropriate for your client will depend upon their situation and their goals for making the gifts.

Gifts to a custodial account are irrevocable and revert to control of the child once they reach the age of majority for their state. A few points for your clients to keep in mind regarding custodial accounts as a vehicle for gifting stocks:

- The kiddie tax discussed above can apply under these circumstances. This might come into play with one or more significant stock positions that generate dividend income or if a stock is sold and the capital gains are sizable.
- If the child or grandchild is looking to apply for financial aid for college, the assets in the custodial account can work against those efforts.

## Trusts

Using a trust as a vehicle to gift shares of stock to family members can also be an option for clients.

A living trust can be revocable or irrevocable by your client. Shares of stock are titled to the trust along with any other investments or assets. Upon your client's death, the assets in the trust are distributed to the beneficiaries, who are often family members.

The assets can pass all at once or gradually, depending upon the desires of your client.

Trusts have many benefits, including the ability to establish a trustee and the fact that these assets will not be subject to probate. In terms of a vehicle for gifting stock, if the shares were held in a revocable living trust prior to your client's death, the beneficiaries would receive a step-up in basis on the shares. This is generally not the case with an irrevocable living trust.

There are other types of trusts that can be considered as a vehicle to gift stock and other assets to family members. You and your client should consult a qualified estate planning attorney when considering these options.

### Gifting Stock to a Spouse

In general, there are no tax implications for gifts of stock or any type of gift to from one spouse to another, as long as both spouses are U.S. citizens under the unlimited marital deduction.

Gifts of stock from one spouse to another are covered by the unlimited marital deduction for gift and estate taxes if they give the recipient spouse a present interest in the shares or a future interest.

A present interest means they receive the shares immediately with no conditions attached. A future interest means that the spouse will have full rights to the shares at some specified future date.

An exception to the unlimited marital deduction would involve a spousal gift of shares that have a terminable interest. This is a contingency that causes the rights to or control of the shares to end at some point in the future. Shares gifted between spouses under these circumstances would not qualify for the unlimited marital deduction.

If the spouse who is the recipient of the gift is not a U.S. citizen, the unlimited marital deduction also would not apply. There is an annual gift tax exclusion for non-citizen spouses, which is \$159,000 for 2021.

Although not gifting per se, spouses can pass assets such as stocks to a surviving spouse if they are held in a jointly owned brokerage account, or in a joint trust arrangement.

Additionally, if one spouse holds stock in an IRA account, they can name their spouse as their primary beneficiary and the surviving spouse would receive the shares held in the IRA if they chose to treat the IRA account as their own.

In each of these examples, if the surviving spouse is not a U.S. citizen, the rules will differ. You and your client should work with a legal or tax professional well-versed in this area.

### Summary

Gifting shares of stock to family members can have a number of advantages, including in cases where your client is giving low-basis appreciated shares to a family member in a lower income bracket.

However, there can be a number of issues to be aware of surrounding the use of stocks as a gifting vehicle. The impact will depend upon the family member's situation and other factors.

Some of these situations can be complex. Your clients will need your guidance and expertise to ensure that gifting shares is the best option — and if it is, that they make the gift using the most advantageous method.

**\*\*TLDR:\*\*** The Ultimate Stocking Stuffer – The Gift of a GME Share. Have a merry conversation with

friends and family this holiday season

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