

Thoughtful Giving to Heirs

By Pam Lundell

How much? When? How, exactly? Families considering making gifts to heirs face some tough questions. Thinking strategically about taxes and trusts can help alleviate the pressure and prepare the beneficiaries.

Large gifts involve many considerations, whether they are philanthropic or for family. First and foremost is to fund current and future expenses, especially as longer life expectancies increase the likelihood of healthcare costs and other costs rising over time. Even families with considerable wealth should work with their advisors to set aside the proper sums if they expect to maintain their current lifestyle.

For families with substantially more than \$22.36 million, the total exemption now afforded a couple¹, the overarching issue is just how much to pass on to children and grandchildren. Some say they wouldn't mind if their kids got all of the wealth. Many decide on a limit, with the excess designated for charities or a private family foundation. Warren Buffet's rule of

thumb about giving kids enough money that they could do anything, but not so much that they could do nothing, remains a benchmark for many wealthy families. However, even those who plan to leave all of their assets to their children want to do it in a thoughtful way. Their goal is to prepare heirs for the responsibility, without quashing their own goals and initiative.

\$11.18 Million

Current lifetime exemption

Children in high net worth families usually are aware of their families' wealth, although not necessarily its extent.

This is where family discussions are crucial – early conversations around values, gratefulness and stewardship are a good starting point. Setting expectations is also important, especially in the context of limiting children's inheritance. Silence on this topic can cause confusion and resentment. Families where these discussions don't occur until much later can encounter real problems that may hinder wealth transfer.

As with anything, timing is everything. Many families realize that while they would prefer to see heirs embrace the family legacy, they also don't want to saddle children with the responsibility before the heirs are ready. Conversely, they don't want them to have the responsibility of inheritance come as an overwhelming surprise in the event of a premature death of a parent or parents. Some families decide to give their adult children a relatively modest amount of money to see how they handle it. If families see their children taking responsibility for their own lives and displaying healthy independence, they might gain the confidence to give more money over time. However, if the children act irresponsibly, families may change or restrict the amount and timing of any future wealth transfer.

¹ The previous issue of Independent Thinking explored potential strategies for the recently doubled lifetime estate, gift and generation-skipping tax exemptions, as well as related aspects of the Tax Cuts and Jobs Act of 2017. To view, please [click here](#) or [contact us](#) to request a hard copy.

It's worth noting that there may be better uses of the increased exemption (\$11.18 million free of federal estate tax, during a lifetime or at death, in 2018) than giving assets away outright. Forgiving large low-interest rate loans previously made to children or other family members could also be worthwhile.

Parents who want to utilize the increased exemption now, but worry that their children (who may be young, or not so young) are unprepared for the responsibility of such a large gift, could establish trusts rather than giving funds outright. By establishing and funding the trusts now, instead of at death, any appreciation on those funds is also removed from the donor's taxable estate. This strategy not only protects the assets, but depending on the language in the trust agreement, could allow for control over the distributions and use of the funds until the children become better stewards of wealth.

Trusts offer families ample flexibility in choosing how to transfer assets to heirs. For instance, a trust could include a provision stating that the trustee not disclose the trust's existence until a later date. Trusts could also be drafted to allow the donor to continue paying income tax on the activity in the trusts, which acts as an additional tax-free gift to beneficiaries. Further, trusts could be set up by both spouses for each other's benefit in the event they need financial support in the future. These spousal limited access trusts, or SLATs, require special care when drafting so as not to run afoul of the reciprocal trust doctrine, which applies to interrelated trusts that have not actually impacted the economic position of the donors.

While there is time to make decisions, the increased exemption amount of the 2017 Tax Act is slated to sunset at the end of 2025. That date will come more quickly



than anticipated for many families, and a change in the political landscape could bring about an earlier deadline.

In the meantime, at least one other gifting opportunity is worth remembering. The annual exclusion gift amount has increased to \$15,000 in 2018. This continues to be an efficient way to transfer wealth to family (or anyone else) without gift tax

consequences. Taking advantage of the annual exclusion gift amount may buy parents and grandparents time to decide how much is enough to give to heirs.

Pam Lundell is a Partner and Wealth & Fiduciary Advisor at Evercore Wealth Management. She can be contacted at pam.lundell@evercore.com.

HOW MUCH IS ENOUGH (OR TOO MUCH)?

Beginning Value	Investment Return	Gift Amount	Gross Estate	Estate Tax	Net To Heirs
\$11.18 MM	6%	\$11.18 MM	\$0	\$0	\$35.85 MM
\$11.18 MM	6%	\$0	\$35.85 MM	\$9.87 MM	\$25.98 MM

Example assumes an individual investor, value growing over 20 years with no withdrawals and no state estate tax. Return assumption is based on a balanced portfolio, pre-tax dollars. Investor's actual return will be reduced by advisory and any other expenses which may be incurred in the management of an investment advisory account. If \$11.18M is gifted in current year, entire gift and estate exemption will be used with none available in year of death.

NEW YORK
55 East 52nd Street
New York, NY 10055
212.822.7620

Jay Springer
Partner
212.822.7621
springer@evercore.com

MINNEAPOLIS
150 S. Fifth Street, Suite 1330
Minneapolis, MN 55402
612.656.2820

Martha Pomerantz
Partner
612.656.2821
martha.pomerantz@evercore.com

TAMPA
4030 Boy Scout Boulevard, Suite 475
Tampa, FL 33607
813.313.1190

Mike Cozene
Partner
813.313.1193
michael.cozene@evercore.com

SAN FRANCISCO
425 California Street
Suite 1500
San Francisco, CA 94104
415.288.3000

Keith McWilliams
Partner
415.288.3010
keith.mcwilliams@evercore.com

WILMINGTON
Evercore Trust Company of Delaware
300 Delaware Avenue, Suite 1225
Wilmington, DE 19801
302.304.7362

Darlene Marchesani
Chief Trust Officer and Trust Counsel
302.304.7361
darlene.marchesani@evercore.com

EDITORIAL AND MEDIA
Aline Sullivan
Editor
203.918.3389
aline.sullivan@evercore.com

Evercore Wealth Management, LLC ("EWM") is an investment adviser registered with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. EWM prepared this material for informational purposes only and should not be viewed as advice or recommendations with respect to asset allocation or any particular investment. It is not our intention to state or imply in any manner that past results are an indication of future performance. Future results cannot be guaranteed and a loss of principal may occur. This material does not constitute financial, investment, accounting, tax or legal advice. It does not constitute an offer to buy or sell or a solicitation of any offer to buy or sell any security/instrument, or to participate in any trading strategy. The securities/instruments discussed in this material may not be suitable for all investors. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Specific needs of a client must be reviewed and assessed before determining the proper investment objective and asset allocation, which may be adjusted to market circumstances. EWM may make investment decisions for its clients that are different from or inconsistent with the analysis in this report. EWM clients may invest in categories of securities or other instruments not covered in this report. Descriptions provided in this material are not substitutes for disclosure in offering documents for particular investment products. Any specific holdings discussed do not represent all of the securities purchased, sold or recommended by EWM, and the reader should not assume that investments in the companies identified and discussed were or will be profitable. Upon request, we will furnish a list of all securities recommended to clients during the past year. Performance results for individual accounts may vary due to the timing of investments, additions/withdrawals, length of relationship, and size of positions, among other reasons. Prospective investors should perform their own investigation and evaluation of investment options, should ask EWM for additional information if needed, and should consult their own attorney and other advisors. Indices are unmanaged and do not reflect fees or transaction expenses. You cannot invest directly in an index. References to benchmarks or indices are provided for information only. The securities discussed herein were holdings during the quarter. They will not always be the highest performing securities in the portfolio, but rather will have some characteristic of significance relevant to the article (e.g., reported news or event, a new contract, acquisition/divestiture, financing/refinancing, revenue or earnings, changes to management, change in relative valuation, plant strike, product recall, court ruling). EWM obtained this information from multiple sources believed to be reliable as of the date of publication; EWM, however, makes no representations as to the accuracy or completeness of such third party information. Unless otherwise noted, any recommendations, opinions and analysis herein reflect our judgment at the date of this report and are subject to change. EWM has no obligation to update, modify or amend this information or to otherwise notify a reader thereof in the event that any such information becomes outdated, inaccurate, or incomplete. EWM's Privacy Policy is available upon request. EWM is compensated for the investment advisory services it provides, generally based on a percentage of assets under management. In addition to the investment management fees charged, clients may be responsible for additional expenses, such as brokerage fees, custody fees, and fees and expenses charged by third-party mutual funds, pooled investment vehicles, and third-party managers that may be recommended to clients. A complete description of EWM's advisory fees is available in Part 2A of EWM's Form ADV. Trust services are provided by Evercore Trust Company, N.A., a national trust bank regulated by the Office of the Comptroller of the Currency and/or Evercore Trust Company of Delaware, a limited purpose trust company regulated by the Delaware State Bank Commissioner, both affiliates of EWM. Custody services are provided by Evercore Trust Company, N.A. The use of any word or phrase contained herein that could be considered superlative is not intended to imply that EWM is the only firm capable of providing adequate advisory services. This document is prepared for the use of EWM clients and prospective clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of EWM. This document includes projections or other forward-looking statements regarding future events, targets, intentions or expectations. Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in such forward-looking statements. There is no guarantee that projected returns or risk assumptions will be realized or that an investment strategy will be successful.

EWM and its affiliates engage in a wide range of activities for their own account, and for their clients and the accounts of their clients, including corporate finance, mergers and acquisitions, equity sales, trading and research, private equity, and asset management and related activities. The observations and views expressed herein have been prepared by the individual author and, unless otherwise specifically stated, are solely those of the individual author and not EWM or any of its affiliates or any of their respective personnel. Other professionals of EWM and its affiliates may provide oral or written advice, services, market commentary, trading strategies and other material to clients that reflect observations and views that are contrary to those expressed herein. The author of this material may have discussed the information contained herein with others within or outside EWM and the author, EWM and/or such other persons may have already acted on the basis of this information (including by communicating the information contained herein to other customers of EWM and its affiliates).