

Should You Provide Financial Help to Your Adult Children?

Raising children to become financially responsible, independent adults is a goal most parents share. However, economic conditions, personal circumstances, and unexpected events can make it difficult for young people to get started on the right financial footing. That can make it tempting to step in financially to help bridge the gap for children who may be struggling with student loan debt, skyrocketing rents, and stubbornly high inflation, among others. But should you? The answer may depend more on where you are in your journey to and through retirement than your children's financial circumstances.

According to a Savings.com survey, 52% of parents providing financial support to an adult child plan to retire within the next 10 years and 34% are already retired. Among those providing support, the average monthly total exceeds \$1,400 across spending categories, including healthcare and auto insurance, groceries, rent, cellphones, tuition, and travel. The survey also found that 21% of parents are helping with their kids' student loan payments. On average, they contribute \$245 a month to help relieve the debt.¹

How strong is your own safety net?

Before committing to provide financial support to a family member, you want to ensure that doing so will not jeopardize your own financial health. Consider the following:

- Is this an isolated need, such as an unanticipated car repair or medical bill, or will your child require regular, ongoing support to make ends meet?
- If you're still working, will the level of support cause you to delay your plans to retire or reduce the amount you are currently able to contribute to your retirement accounts?
- If you are already retired, will it require you to reprioritize your goals or accept certain trade-offs?
- Do you have adequate emergency savings to pay for an unexpected expense you may incur?

How you give matters

Fortunately, there are many ways for both parents and grandparents to provide financial help to adult children and grandchildren. If you're in a position to do so without derailing your own financial strategy, there are many tax-smart ways to help you accomplish your goals, including:

- **Annual gifts** - For 2023, the annual gift tax exclusion is \$17,000 and the combined estate and lifetime gift tax exemption is \$12.92 million per individual. There is no limit on the number of gifts you can make in a given year or to whom those gifts are directed. For example, if you

have two adult children who are both married, you and your spouse could give a combined \$34,000 to each of your children and another \$34,000 to each of their spouses, for a total of \$136,000.²

- **Appreciated securities** - Gifts of stock can be made in lieu of giving cash. In certain cases, this can be advantageous because your gift is based on the fair market value of the asset you transfer, so you won't have to pay capital gains tax on the appreciation. When gifting stock to a family member, 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.³
- **Direct payments to educational institutions and medical providers** - Parents or grandparents seeking to help loved ones offset tuition or high medical expenses can also take advantage of the exemption for direct payments to these institutions on behalf of a child or grandchild. For example, instead of giving the money directly to a child through a 529 plan, you can make a tuition payment directly to the college or university. If the payment is made directly to the school, it is not considered a gift under the gift tax rules, so it won't count toward your annual exclusion. Therefore, you could still give up to \$17,000 to that child under the annual gift tax exclusion in the same tax year. The same is true if you want to help pay a family member's medical expenses. As long as you pay the hospital or doctor's office directly, it is not considered a gift.⁴

Finding the right balance

Your tax, legal and financial professionals are well-equipped to help assess the impact that providing financial support to family members may have on your current strategy and legacy goals. With the help of sophisticated software, financial professionals are able to model different scenarios to illustrate the impact that a one-time gift or ongoing support may have on your ability to meet each of your goals in a tax-efficient manner. That can help you find the right balance between pursuing the goals you have set for yourself and helping the people you love.

To learn more about tax-smart strategies to help meet all of your family's needs and goals, let's talk. Call the office to schedule a time that's convenient for you.

¹ Klongpayabal, Beth, "45 Percent of Parents Still Cover Costs for Their Adult Children." Savings.com, 22 MAR 2023, <https://www.savings.com/insights/financial-support-for-adult-children-study>

² "Estate and Gift Tax FAQs." IRS.gov, <https://www.irs.gov/newsroom/estate-and-gift-tax-faqs>. Accessed 28 Feb. 2023.

³ Wohlner, Roger, "Gifting Stock to Family Members: What to Know." Thinkadvisor.com, 25 JAN 2021, <https://www.thinkadvisor.com/2021/01/25/gifting-stock-to-family-members-what-to-know/>

⁴ Garber, Julie, "What Gifts Are Not Subject to the Gift Tax?" Thebalancemoney.com, 7 NOV 2022, <https://www.thebalancemoney.com/what-gifts-are-not-subject-to-the-gift-tax-3505684>

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