KymmiB

Preparing for Tomorrow

Loaning Money to Family
Good Idea or Not?

Part of the reason we are so anxious for our 'Greatest Blessing Ever' is not only because we want to be Wealthy but because we are excited about being in a position to help others. We are suffering and we know others are and we COULD be helping them. Our hearts are bigger than our wallets right now - Holidays are at our doorstep again and in the season of Giving - We want to Give!

So what are the pro's and con's of Giving money? You're probably wondering how there are any Cons to giving money to those that need it?? So before you look at me as being stingy and selfish - I want you to hear me out.

Loaning Money to Family / Friends

Your updated situation has been noticed and now friends/ family have come to you and want to borrow some money. They are saying all the right things to tug at your heart strings. And the little voice inside you starts chattering away with all the reasons you should and shouldn't loan this money – So Let's talk this through BEFORE the situation arises and then you can have a plan for when it does.

You might fear that your family members will resent you for not being able to help them more and worry about how they'll manage without your support.- and one of the reasons you bought that extra currency was so you could help your friends/ family.

But on the other hand – Money can do funny things to relationships - and not funny hahaha So how do you handle this without it coming in between you.

- Before you lend any money to your family members, you'll want to talk about expectations, payment options, and any other issues that need to be addressed before you sign on the dotted line.
- Before you loan any money, make sure you're comfortable with the amount you're loaning.
- Talk to your family members about how much they need and about how much you're comfortable loaning. Give yourself some room to adjust the loan amount if you need to.

- ★ You can set up a repayment plan that allows your family members to pay back the money over time rather than having to pay everything back at once
- ★ If you go in with a strict repayment plan, you may be able to forgo interest payments. This is especially useful if you're loaning money to family members who are in dire straits financially and can't pay you back immediately.
- ★ create a lending contract. This will help you create a clear, fair agreement that both parties will agree to.
- ★ Make your desires and expectations clear- if they ever want to think about having the opportunity to borrow again- then the contract is followed
- ★ If you feel repayment may be a problem, you may just want to give them the money saving animosity later
- ★ If you feel like the situation is getting out of hand, don't be afraid to talk about it.
    - This can help you work through your feelings and avoid letting them boil over.
    - Take care of any accompanying emotions so that you don't let them get the best of you and don't let them get the best of your borrower.

Situational Advice:

Helping with a Child's Future College Tuition

Solution: *Contribute to a 529*

- The best way to save for a child's future education is through a 529 college saving plan
    - money grows tax free
    - can be withdrawn tax free for qualified educational expenses, including full tuition and expenses for higher education.

A provision in the new tax law allows up to $10,000 a year in tax-free withdrawals for precollege education as well, though not all states may adopt this provision.

Contribute to an existing 529 plan set up in the parents name

Here's why:

Financial aid formulas categorize distributions from a grandparent's 529 plan — but not from a parent's plan — as student income. That could reduce any potential financial aid award. (If you've been saving in a 529 in your name, many plans let you switch ownership to the parent, as long as you don't change the beneficiary.)

- If you want to hold on to the account,
    - delay paying until the last two years of college.
        - That's because schools now look at the tax return from two years earlier to determine aid eligibility for the upcoming year, which means you can pay tuition during the student's final two years without affecting financial aid.

YOU'D LIKE TO SET UP A CHARITABLE FOUNDATION AND YOU'RE NOT BILL GATES

Solution: *Contribute to a donor-advised fund.*

- SolDonor-advised funds (DAFs) are like charitable savings accounts.
    - You get an immediate tax deduction for any cash (or investments) you put in the fund.
        - This allows you to front-load two or three years' worth of giving into one year, claiming a charitable deduction for a year when you plan to itemize your deductions instead of taking the newly increased standard deduction.
        - Then you can direct grants from the fund to your church, alma mater or other public charity, on whatever timetable you wish.
        - Any money sitting in your fund can be invested tax free, so you potentially have more money to give later on.
        - You can name other family members as advisers of the fund so they can make donations to charities as well.

Just remember: Once you put money in, you can't take it out; it must go to charity. DAFs are especially useful if you have a big spike in income one year or if you expect to be in a lower tax bracket in future years.

How to do it:

Open a DAF at a sponsoring organization, such as a community foundation or large investment firm. Fidelity Charitable and Schwab Charitable, for example, require a relatively low minimum initial contribution of $5,000 and let you fund your DAF with cash or assets including stocks and real estate. They'll sell any noncash assets you put in and give you a menu of different funds for investing the proceeds.

YOUR CHILDREN HAVE DIFFERENT LEVELS OF NEED

Solution: *Divide equitably, and put this in writing.*

- Sometimes there are good reasons for not leaving each of your children an equal inheritance. Perhaps one child received more of your help during your lifetime. Maybe one of your children has special needs and requires a trust to support him. Or you could have a much younger child who will need more financial assistance for such things as education.
  - Whatever your reasons for dividing your estate unequally, it's your decision.
  - It's also your decision as to whether you want to discuss your thinking with your children. No matter how and why you make a division of assets, you can't prevent dissatisfaction among your children. You can, however, try to minimize the damage after you're gone.

How to do it:

- If you don't want to explain unequal bequests while you're alive,
  - you consider leaving behind a letter explaining your motivations.
  - . To reduce the chances of an ugly battle over the will's terms and validity, insert a no-contest clause in the will — one that says, essentially, "If you challenge this, you'll get nothing."

YOU WANT THE NEXT GENERATION TO ENJOY THE FAMILY VACATION HOME

Solution: Establish a company.

First off, don't assume your kids want that memory-filled house by the lake. *Ask.*

If none want it, that's that: Sell when the time is right for you.

- If just one doesn't want it but the other kids do, consider leaving that child an asset comparable in value to what the other ones get.
- For the kids who take on the vacation house, your goal is to work out in advance all the issues that could arise after the transfer.
  - The best way to do that is to formalize a plan.
    - recommends you achieve this by transferring the house to a limited liability company (LLC) and giving shares in it to the kids. Spell out your children's rights and responsibilities in the LLC's operating agreement, including how maintenance expenses will be shared and when different families can use the property. Most importantly, if someone wants to sell his or her share, the LLC agreement should provide a way to pursue this (typically, at a price less than the person's share of the property's full value).

How to do it:

Hire a lawyer, because setting up an LLC of this type and creating and writing an operating agreement can be complicated.

One tip: Define the universe of eligible owners as lineal descendants and not spouses. That prevents a divorce from creating an ownership battle.

YOU WANT TO SHARE MONEY HELD IN AN IRA

Solution: Do it now ... or get charitable at 70½.

> Hey, it's your money — you can take whatever you wish from an IRA once you reach age 59½. The issue is mostly taxes; a large withdrawal could push you into a higher tax bracket, increase the taxes on your Social

Security payments and boost your Medicare premiums. If you give money from a traditional IRA distribution to your child (or anyone else), you'll have to pay income taxes on what you pulled out, just as you would if you kept the money. Beginning in 2018, you can give up to $15,000 (or $30,000 if you're married) to a person in a year without having to tell the IRS. Above that, you will need to file a gift tax return, though you won't have to pay any taxes on the gift now. The total lifetime tax exemption for your estate and gifts is $11.2 million per individual, so odds are that the IRS won't ever collect.

What about giving IRA money to charity? If you're 70½ or older, you can transfer up to $100,000 per person per year directly *from a traditional IRA to a public charity you want to support, and the money is completely excluded from income taxes. Even better: It's still considered part or all of your minimum mandatory withdrawal for the year. You won't even have to itemize your deductions to gain the tax benefit, since the funds come out of your IRA without any tax consequence.*

How to do it: Contact your IRA provider and get a copy of its charitable-distribution form. You'll provide the name of one or more charities to which you wish to donate, and your IRA provider will send a check directly to the charity. Two caveats: You can't do this with a 401(k) required minimum distribution, and you don't get any tax benefit donating money from a Roth IRA, since Roth distributions aren't subject to federal taxes in the first place.

YOUR CAR OR BOAT IS GATHERING DUST

Solution: Avoid the middleman.

- Let's say you have an SUV that you don't need.
    - One option is to give it to your child or sell it to her cheap; just be sure to officially transfer the title. (Also, file a gift tax return if the fair market value is greater than the $15,000 annual gift tax exclusion.)
    - Give it to a Charity

- calling the charity you want to support and finding out if it wants your vehicle. If the charity plans to use your car — say, to deliver meals — you can take the car's fair market value as a deduction.
- If the charity plans to sell the car at a rock-bottom price, you might want to sell it yourself and donate the money

The reason: Your deduction would be the charity's selling price. What about those for-profit organizations that serve as a middleman to help donate your car to charity? They often take a large cut of your gift

How to do it: If you want to sell the car yourself, find out its worth by using the Kelley Blue Book (kbb.com); enter the year, make, model and other factors. Next, put your listing on a car-sales site such as Cars.com or TrueCar. You can also request a Kelley Blue Book "instant cash offer" (rather than a trade-in offer) from a local dealer and avoid selling the car yourself.

Alternatively, you could donate that SUV to charity and possibly get a tax deduction, as long as you're itemizing.

YOU WANT TO PASS ALONG WEALTH MADE VIA STOCKS OR MUTUAL FUNDS

Solution: Give the shares to family members during their low-income years.

- Your heirs will get a break from the IRS if they inherit your stock upon your death: The profit they'll be taxed on when they sell those shares will be calculated based on their value when you died, not the (probably) lower price you paid for them.
- what if you think the stock's value has peaked or your family could use the money now? You could sell the stock, but then you'd pay capital gains taxes on the profits, which could be large if the investment is old or has done especially well. I
- Instead, you could give those shares to your children. That's a great option if the recipient is in a low tax bracket (currently, has a taxable income of less than $38,700 if single, or double that if married);
  - she wouldn't owe capital gains taxes when selling the shares*, explains Monica Sonnier, a certified public accountant and a member of the National CPA Financial Literacy Commission for the Association of International Certified Professional Accountants.*

- ★ Alternatively, you could transfer shares you've held for one year or more to charity, maximizing both the size of the gift and your tax benefit.
    - For instance, let's assume you're in the 22 percent tax bracket (earning a maximum of about $82,500 if single, or $165,000 if married) and you have $20,000 worth of stock you bought years ago for $5,000. If you sell the stock and, after calculating your tax bill, donate the net proceeds to charity, the nonprofit will get about $17,750 and you'll owe the IRS $2,250. But if you simply give the shares, the charity will get the full $20,000 and you'll cut your tax bill by a cool $2,250.

How to do it: Contact your brokerage firm to find out what steps it requires to give your stocks to a charity or another person. Usually you need to fill out a transfer form with your account number and the recipient's brokerage and account number, which you'll have to track down on your own. And make sure that the charity knows your gift is on the way, so it credits you properly for your contribution.

What are tax implications of giving money to family?

> If you give more than ~~$15,000~~ $16,000 in cash or assets (for example, stocks, land, a new car) in a year to any one person, you need to file a gift tax return. *That doesn't mean you have to pay a gift tax. It just means you need to file IRS Form 709 to disclose the gift.*

- ★ For 2022, the annual gift tax exemption is $16,000, up from $15,000 in 2021. This means you can give up to $16,000 to as many people as you want in 2022 without any of it being subject to the federal gift tax. The gift tax is imposed by the IRS if you transfer money or property – worth more than an exempted amount – to another person without receiving at least equal value in return. This could apply to parents giving money to their children, the gifting of property such as a house or a car, or any other transfer. There is also a lifetime exclusion of $12.06 million in 2022.

Lifetime Gift Tax Limits

Most taxpayers won't ever pay gift tax because the IRS allows you to gift up to $12.06 million (as of 2022) over your lifetime without having to pay gift tax. This is the lifetime gift tax exemption, and it's up from $11.7 million in 2021.

So let's say that in 2022 you gift $216,000 to a family member. This gift is $200,000 over the annual gift exclusion, meaning you'll need to report it to the IRS. However, you won't immediately have to pay tax on that gift. Instead, the IRS deducts that $200,000 from your lifetime gift tax exemption. So assuming you never made any other gifts over the annual exemption, your remaining lifetime exemption is now $11.86 million ($12.06 million minus $200,000). The table below breaks down this example:

Most taxpayers will not reach the gift tax limit of $12.06 million over their lifetimes. However, the lifetime gift tax exemption becomes important again when you die and pass on an estate.

How the Gift Tax Works

What Gifts Are Safe From Taxes?

Taxable gifts can include cash, checks, property and even interest-free loans. It also applies to anything you sell below fair market value. For instance, if you sell your home to your non-dependent child for $175,000 when it's worth $250,000, the $75,000 difference could be considered a gift. That surpasses the annual gift tax limit and thus is deducted from your lifetime gift tax limit.

What constitutes a gift that counts toward your gift tax limit is generally easy to understand. There are several things that the IRS doesn't consider a gift, however. You can give unlimited gifts in these categories without facing a gift tax or having to file gift tax paperwork:

- Anything given to a spouse who is a U.S. citizen
- Anything given to a dependent
- Charitable donations
- Political donations
- Funds paid directly to educational institutions on behalf of someone else
- Funds paid directly to medical service or health insurance providers on behalf of someone else

There are, of course, a few exceptions to keep in mind. If your spouse is not a U.S. citizen, you can only give him or her $157,000 each year. Anything above that is subject to gift tax and counts against your lifetime limit.

Funds that cover educational expenses refer only to tuition. That does not include books, dorms or meal plans. You can skirt the gift tax by contributing to someone's 529 college savings plan with a lump sum and then spreading it over five years for tax purposes. The IRS allows taxpayers to donate $75,000 into a 529 plan without paying tax or reducing the lifetime limit. The only caveat is that any additional gifts for the same recipient will count toward your lifetime limit.

Lastly, it's important to note that charitable donations are not only exempt from gift tax, they may also be eligible as an itemized deduction on your individual income tax return.

How to File Your Gift Tax Return

The first step to paying gift tax is reporting your gift. Complete IRS Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return, on or before your tax filing deadline. Download the document, complete each relevant line and sign and date along the bottom. You then send the form in with the rest of your tax return.

You should complete Form 709 anytime you gift in excess of $16,000 – even if you're within the $12.06 million lifetime limit. You'll have to file a Form 709 each year you give a reportable gift, and each form should list all reportable gifts made during the calendar year.

If you live in Connecticut or Minnesota, you may also have to file a state gift tax return. These are the only states that have their own gift tax. In most cases, you can file a gift tax return on your own. If your transfers are large or complex, though, consider finding a financial professional.

Bottom Line: **The IRS allows every taxpayer is gift up to $16,000 to an individual recipient in one year. There is no limit to the number of recipients you can give a gift to. There is also a lifetime exemption of $12.06 million. Even if you gift someone more than $16,000 in one year, you will not have to pay any gift taxes unless you go over that lifetime gift tax limit.**

You will still need to report gifts over the annual exclusion to the IRS via Form 709. The IRS will lower your remaining lifetime exclusion over time and then use that amount to determine how much of your estate you need to pay estate tax on.

What are the tax advantages of gifting money?

> Using the annual gift tax exclusion ensures that every penny of your $15,000 annual gift is excluded from your $11.7 million lifetime gift and estate tax exemption. And because annual gifts reduce the size of your estate, they also reduce the potential tax liability for your heirs.

Is Giving Away Your Money Wrong??

If you find you're being generous for all the wrong reasons, It's time to STOP and re-evaluate why you are giving away

Many times people are looking for a certain feeling when they're giving money. They might be looking for a feeling of acceptance, gratitude, it's better than saying no and feeling bad about it or some sort of other satisfaction. But those good feelings can only be achieved when you're giving from a place of prosperity.

The single-best action you can take to know if you're giving from a place of actual prosperity, or something else? Start NOTICING:

- Notice what you're spending money on, and how it makes you feel.
- Notice how secure (or insecure) you feel about emergencies or worse-case scenarios.
- Notice where and how your money flows through your life.
- Notice how much you keep, and how that makes you feel.

Prosperity is that feeling of satisfaction when you realize that everything you need is covered.

Tips:

Talk to your Tax Attorney – with new tax laws how much money can you give away before it becomes financially harmful to you.
Create a Bank Account just for philanthropy- when the pot of money is gone - it's gone   you are not a revolving ATM
Do your Due Diligence and Vet people asking for money -

References:

How To Loan Money To Family Members The Right Way

Tips For Giving Away Money To Family Members

Why giving away money isn't a sign of generosity

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Why is it important to know the tax implications of giving away money?

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