

Gifting strategies in a struggling economy

November 19, 2008 - Front Section

Although it may seem strange to consider gifting strategies during a period of falling real estate values and a general economic downturn, this may be the perfect time to design and to implement lifetime gifting programs. The current real estate market provides an opportunity to take advantage of temporarily depressed real estate values in order to transfer valuable property to the next generation at a reduced gift tax cost.

Every individual has a lifetime credit of \$1 million against the Federal gift tax. Every gift above the tax-free annual exclusion amount (\$13,000 per year as of January 1st), is offset by a dollar per dollar use of that person's credit amount. In other words, if a person gifts real property worth \$500,000, he generally uses \$500,000 of his lifetime credit, leaving him with \$500,000 remaining (and once he runs through this credit amount, he will start to incur Federal gift tax at a rate of up to 45% of the value of the property gifted). Depressed real estate values can take advantage of the gift tax structure, because a property that was worth \$500,000 last year may be worth only \$425,000 now. A direct gift of this property to a child or children will save \$75,000 in gift tax credit now, while the property likely will increase in value once the economy improves.

Although there are no guarantees in predicting the real estate booms and busts, if the past remains a guide to the future, real estate values will again surge. A current gift will make certain that all future appreciation occurs outside the donor's estate.

Edward Fay is an attorney with Lourie & Cutler, Boston, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540