THE NEWS TRIBUNE
Part of the McClatchy Media Network

BUSINESS COLUMNS & BLOGS

Savings bonds are tried and true, but there are other ways to help grandkids financially

BY GARY BROOKS *CONTRIBUTING WRITER*

JUNE 05, 2023 5:00 AM

We are in the heart of graduation season, a common time when grandparents might make a more substantial gift to their grandkids than the usual birthday or holiday items. Of course, graduation is not the only reason to make financial contributions to grandchildren. Some grandparents have grandchildren who are well past their teens and early 20s like the recent high school and college graduates.

Regardless of the stage in life of their grandkids, grandparents have several options for sharing financial wealth (in addition to their life experience). Sometimes, these gifts might be purely out of generosity and desire to create financial security in a younger generation. At other times, intra-family gifting can be done strategically to address estate-planning considerations of the grandparents.

Here are a few smart ways to think about generational gifts.

NOBODY FROWNS AT CASH

Any individual is allowed to gift any other individual up to $17,000 in 2023 without needing to acknowledge the gift on a tax return. That means that a couple could gift up to $34,000 to any individual before needing to track their annual gifts against a lifetime gift exemption. If you want to file a gift tax return (IRS Form 709), you can gift any amount to whomever you want.

In Washington state, if your estate is worth over $2.193 million at death, the state-level estate tax is applicable. It could be advantageous to complete cash gifts before death so that the dollars gifted to current recipients are not subject to potential future estate tax. That is just one tactic among other options to address the state estate tax from a broader legal planning perspective that an estate attorney could review.

TRANSFER INVESTMENTS WITH GAINS

Perhaps you have investments that have done well and grown to a point that you have more concentrated risk in a single investment than you intended. That is more common with individual stocks than broader funds. You could transfer shares from your brokerage account (non-IRA) to the accounts of grandchildren. The recipient retains the cost basis of the investment. They might want to keep the investment if it has attractive potential, or, if they have a better use for the money, they could sell it, pay the capital gains tax due on the growth and have liquidity to apply to something else. That can be a good way to reduce risk in your own portfolio and help a grandchild make a home down payment, pay for graduate school, or eliminate credit card or student loan debt. The transfer of investments also follows the $17,000 per person, per year rule, without need to acknowledge it on your tax return.

PAY TUITION OR MEDICAL BILLS DIRECTLY

While the prior examples had limitations related to annual giving limits, grandparents could pay college tuition directly to the university or medical bills directly to the charging entity without limitations. That also provides some certainty to the grandparent for how the money would be used compared to giving cash or investments.

CONTRIBUTE TO COLLEGE SAVINGS ACCOUNTS

Particularly if the grandchildren are young and there is a desire to build assets for college costs well into the future, contributing to a 529 college savings account or Coverdell education savings account could be a good option. Coverdell ESAs have $2,000 contribution limits making them less useful, but 529 plans have greater flexibility. It might be best to contribute to a 529 account that is owned by the parent rather than having the grandparent be the account owner for the student beneficiary.

FUND A ROTH IRA

Particularly for students who might be able to work part-time but can't afford to save much of their income, helping them contribute to a Roth IRA is a compelling idea. If the grandchild has earned income for the year, the Roth IRA could be funded up to either $6,500 or the amount of earned income, whichever is less. The long-term benefit of the Roth IRA for a young person is that the growth in the account is tax-free when withdrawn.

To help teach good savings habits, the grandparent might even like to establish a matching gifts type program. For instance, if the grandchild contributes $1,000 of their savings, the grandparent might fully fund the remainder up to the limit. Better yet, to use a real outcome to explain the benefits of investing early, the grandparent could show the grandchild what they have invested in that has helped them build financial security over time.

There are other important details to understand in each of these options, but they are more creative, and maybe more fun, than gifting U.S. savings bonds (a historically common grandparent gift), not that there is anything wrong with savings bonds.

Gary Brooks is a certified financial planner and co-founder of BHJ Wealth Advisors in Gig Harbor.