

## You can't take it with you. Will you leave it to the kids?

Warren Buffett did it. Bill Gates did, too. Both are planning to leave their fortunes to charity, rather than to their children, when they pass.

Of course, most of us aren't among the world's top 10 richest people. Our kids will be lucky to get the house, not billions of dollars. But if you have the means and you're thinking about what to leave the kids after you're gone, you may also be thinking about giving them money now, instead.

About two-thirds of people 60 and over expect to leave some kind of inheritance to their families, either cash, property, or valuables, according to a recent poll by Interest.com, a subsidiary of Bankrate.

You can't take it with you, but should you give the kids your money now? There's no right or wrong answer, said Mitchell Freedman, a CPA and personal financial specialist in suburban Los Angeles.

"There are good reasons — both financial and personal reasons — to give while you're alive, but there are also good reasons to not give too soon," said Freedman.

If you're giving your money away as a tax hedge, you probably shouldn't bother, say accounting experts. The federal estate tax only kicks in once an estate has topped around \$5.5 million, so most 99-percenters households don't need to worry.

At the state level, it could be a different story, warned Donna Skeels Cygan, a financial advisor in Albuquerque, New Mexico. Some states have their own estate taxes, so you should check if your state is one and what the threshold is before making decisions, she said.

Most state taxes exempt estates under \$1 million, but not all. New Jersey, for example, taxes estates over \$625,000. There are several databases online that can help you figure it out, such as [nolo.com](http://nolo.com).

In fact, the Interest.com poll found the amounts seniors plan to leave their loved ones are modest: 42 percent plan to leave under \$100,000 to their families, 22 percent will leave \$100,000 to \$500,000, and only 13 percent will leave more (the rest either didn't know or wouldn't say). On the other hand, the tax code allows you to give each of your children \$14,000 a year tax-free, and your spouse can give them another \$14,000, for a total \$28,000 annually.

"Don't let the tax tail wag the dog," said Freedman. Make your decision based on your circumstances, not the tax potential, he said.

Cygan invoked Buffett's rule that you should leave your kids just enough so they will do something, but not so much that they will do nothing. In fact, Buffett set up each of his children with a charitable foundation.

"I'm a huge fan of starting to give it away while you're alive," said Cygan, author of *The Joy of Financial Security* (2013). "I want the kids or the grandkids to say 'thank you.' You can't do that once the person dies," she said.

Additionally, if you give the money away while you're living, you can give them some guidance on how to handle their new bundle. "If it's done in a smart way I think it can be very healthy," she said.

But you don't need to worry they kids will waste their inheritance. Of the 27 percent of younger respondents in the Interest.com poll who expect to get an inheritance, almost half, 42 percent, say they will either save it or invest it for retirement. Another 18 percent said they would pay off debts and 12 percent would use it to pay for education costs. Only three percent said they would spend it on a vacation or splurging on jewelry or luxury cars.

Still, Freedman warned once you give the money away, you will lose control over how it is spent, regardless of any promises the kids make. Older Americans need to keep in mind that their medical and long-term care costs will grow as they get older and can outpace their assets, so it's best not to impoverish themselves, said Freedman.

"I'm sure there are families where children or grandchildren will take care of the elders, but I wouldn't count on it. Giving it away is a loss of control," said Freedman.

On balance it's a decision based on your values and family situation, not so much the tax and financial implications, say the experts.

"A better house, a car, an education for children — all those are very good reasons to be able to assist your children and your grandchildren," said Freedman "But that's very personal and it isn't really a financial reason to do it."

Have a frank conversation with your family about your estate while you're still here and healthy, said Cygan.

"You need to plan ahead and you need to communicate," she said. "The subject of money is so taboo in families."

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