

Direct payments of tuition and medical expenses can reduce future estate tax exposure

Published on August 1, 2016

With the gift and estate tax exemption at \$5.45 million in 2016, you may be less concerned about these taxes. But if you don't take advantage of making tax-free direct payments of tuition and medical expenses, you're missing a valuable opportunity to reduce your potential gift and estate tax exposure down the road.

Leveraging the break

Federal tax law allows you to pay tuition and medical expenses on behalf of your children or other loved ones without incurring gift tax or using up any of your gift and estate tax exemption. This may not seem like much if your net worth is well under the current exemption amount. But what if your wealth grows beyond the exemption amount in the coming years and decades? Or, what if lawmakers decide to reduce the exemption? Either way, your estate could end up with a hefty tax bill, leaving less for your family after your death.

You may already be making \$14,000 per recipient annual exclusion gifts to your children, grandchildren or other loved ones, which can help minimize your taxable estate. However, if estate tax is a concern, you should also consider paying some or all of their tuition and medical expenses. Unlike the annual exclusion, there's no limit on the amount of tuition or medical expenses you can pay tax-free. It's a powerful technique for transferring wealth gift-tax-free while also reducing the size of your estate.

Making direct payments is critical

A few caveats: This strategy works only if you make payments *directly* to a qualifying educational institution or medical provider — advancing the funds to a loved one or reimbursing previously paid expenses doesn't count. The break covers tuition at all grade levels, but not payments for room and board, books, supplies, or other nontuition expenses. And it doesn't apply to medical expenses reimbursed by insurance.

We can help ensure that you're taking full advantage of your \$5.45 million gift and estate tax exemption. Please contact us today.

© 2016

The Law Office of Eugene Gorrin, LLC
17 Watchung Avenue, Suite 204
Chatham, NJ 07928
973.701.9300
egorrin@gorrinlaw.com
www.gorrinlaw.com