KayneInsights

March 2025

How to Gift Tax-Efficiently With Family

Gifting assets to your heirs can be an effective way to reduce your taxes while also helping to prepare for their financial future.

At Kayne Anderson Rudnick (KAR), our advisors seek to help clients create tax-efficient giving strategies that can enable them to make life changing financial contributions to the people they care about. This article highlights select strategies that may lower gift and estate taxes while helping your young adult children buy their first homes, sell appreciated stock tax-free, and kickstart their retirement savings.

1. Make an “Intrafamily Loan”

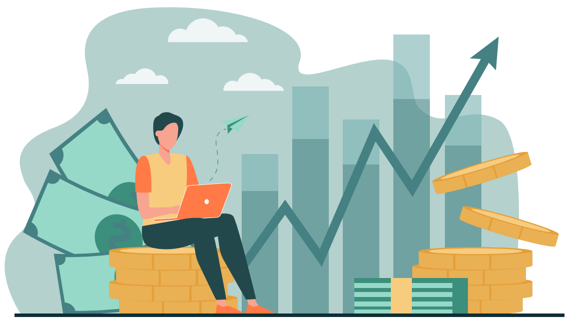
The appreciation of the housing market has many KAR clients asking how they can help their young adult children buy their first homes. Instead of making a large upfront cash gift, giving your child a loan may help reduce your gift and estate taxes.

In this case, you (the parent) acts as the bank or lender to your child. Each year, you can “forgive” your child’s debt up to the annual exemption amount. This is also the amount of money you may gift per year to any one person without paying gift taxes ($19k per person for a single taxpayer, $38k for a married couple filing a joint tax return for 2025). The IRS will consider this “loan forgiveness” a tax-free gift so long as you don’t forgive more than the annual exemption in a single year.

Imagine your son, Jon, and his wife, Jill, need $200,000 to buy their first home. To make an intrafamily loan, the IRS will say Jon and Jill must pay you a minimum interest rate. For simplicity, let’s set the interest rate at 4%, which comes out to $8,000 per year. Since you and your spouse can gift a combined $76,000 annually ($38k to Jon and $38k to Jill) you can forgive the $8,000 of interest and $68,000 of principal at the end of each year and the IRS will consider this a tax-free gift.

Year	Annual Interest		Annual Debt		Annual Exemption Amount	Remaining Loan Balance
1	$8,000	+	$68,000	=	$76,000	$132,000
2	$5,280	+	$70,720	=	$76,000	$61,280
3	$2,451	+	$73,549	=	$76,000	—

Before making an intrafamily loan, contact your KAR advisor to see how much you can afford to gift. We also suggest working with your CPA to further understand the rules and qualifications for tax-free gifts and an attorney to clearly document the loan terms in writing.



2. Gift Appreciated Stock

If the "intrafamily loan" isn't what you're looking for, there are other options available to help financially support your children or grandchildren. For example, if you own stock with large unrealized gains, you may lower your taxes by transferring this appreciated stock directly to your heirs.

The benefits of gifting appreciated stock are threefold. First, transferring stock directly to the recipient doesn't trigger capital gains taxes. Second, if you'd like to re-purchase the stock you just gave away, you will now own the same investment but have reduced your unrealized gains (i.e., increased your cost basis). Third, if your heirs make under a certain amount of income, they may be able to sell the stock you gifted them and pay no capital gains tax.

Believe it or not, the IRS says long-term capital gains may be taxed at 0% if your taxable income is less than $48,350 for a single taxpayer, or $96,700 for a married couple filing a joint tax return. So, while you may be passing your unrealized gains to the recipient of your appreciated stock, Jon and Jill can turn around and sell that gifted stock tax-free if they have no other taxable income (these income thresholds are based on 2025 figures and subject to change annually).

While gifting appreciated stock may seem like the obvious choice, in some cases you may receive a greater tax benefit by giving away your underperforming stock. For example, imagine you have a large tax liability from selling your business. In this case, selling stock with unrealized losses and then gifting your kids the cash proceeds may help you offset the taxable gains from your business sale.

Before gifting assets, it's important to work with your CPA to understand the unique tax rules that apply to your appreciated stock or forms of equity compensation—Employee Stock Purchase Plans (ESPPs), Incentive Stock Options, and Restricted Stock Units (RSUs).

3. Frontload Contributions into 529 College Savings Plans

If you've only been making 529 Plan contributions up to the annual exemption amount to avoid paying gift taxes, there's a special tax provision you may not know about. The IRS allows taxpayers to frontload up to five years of 529 Plan contributions in a single tax year.

This special tax rule means a single taxpayer may contribute as much as $95,000 ($19,000 annual exemption amount x five years) in one tax year to any one 529 Plan beneficiary without triggering gift or estate taxes. For married taxpayers filing jointly, this amount doubles to $190,000 ($38,000 annual exemption x five years).

The tax benefits don't stop there. Since 529 contributions are considered gifts, your taxable estate will also be reduced by the amount of your contribution. This means you'll have less money at the end of your lifetime that may be subject to the 40% estate tax.

If you do frontload five years of 529 contributions in a single tax year, it's important to keep in mind that you can't make any additional tax-free gifts to the same beneficiary for the five years after your supersized 529 contribution. You may also be required to report these 529 contributions on a gift tax return, called Form 709. Make sure to let your CPA know about your 529 contributions before filing your taxes.

How Can Kayne Anderson Rudnick Help?

We believe intrafamily loans, gifting appreciated stock, and frontloading 529 contributions are great ways to use your wealth as a tool to help financially support your loved ones. At KAR, our wealth advisors can work together with your CPA and attorney to put these tax-saving gifting strategies into action. To discuss how family gifting may fit into your overall wealth plan, please reach out to your dedicated Kayne Anderson Rudnick wealth advisor.

Kayne Anderson Rudnick is an investment firm specializing in high-quality investment and wealth management strategies. The firm has an over 40-year history serving a diverse client base that includes high-net-worth individuals, corporations, endowments, foundations, public entities, taft-hartley clients, and mutual funds. Kayne Anderson Rudnick is known for its commitment to high-quality investment strategies and business practices. For more information, please visit www.kayne.com.