

WEALTH WISDOM

BY HUDSON FINANCIAL SERVICES



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Why More Families Are Choosing to Gift Wealth Earlier—and How to Do It

Estate management isn't just about what happens after you're gone— it's also about what you can do now to help manage future estate taxes, transfer wealth strategically, and attempt to create a meaningful impact during your lifetime.

Many families recognize that intentional lifetime gifting isn't simply generous; it may also be a smart approach to transferring your assets. If you're in a position to support your own retirement needs, lifetime gifting can be a way to manage future taxes while helping your loved ones during your lifetime, when support may be most useful. And unlike traditional inheritance, you're able to experience the impact of your generosity.

After working with clients on their gifting and estate strategies over the years, we've pulled together some insights we hope you find helpful.

The "Great Wealth Transfer"

The topic of gifting assets is timely because America is undergoing the greatest wealth transfer in history.

According to Cerulli Associates, a wealth management research firm, \$124 trillion of wealth will transfer among generations through 2048.¹

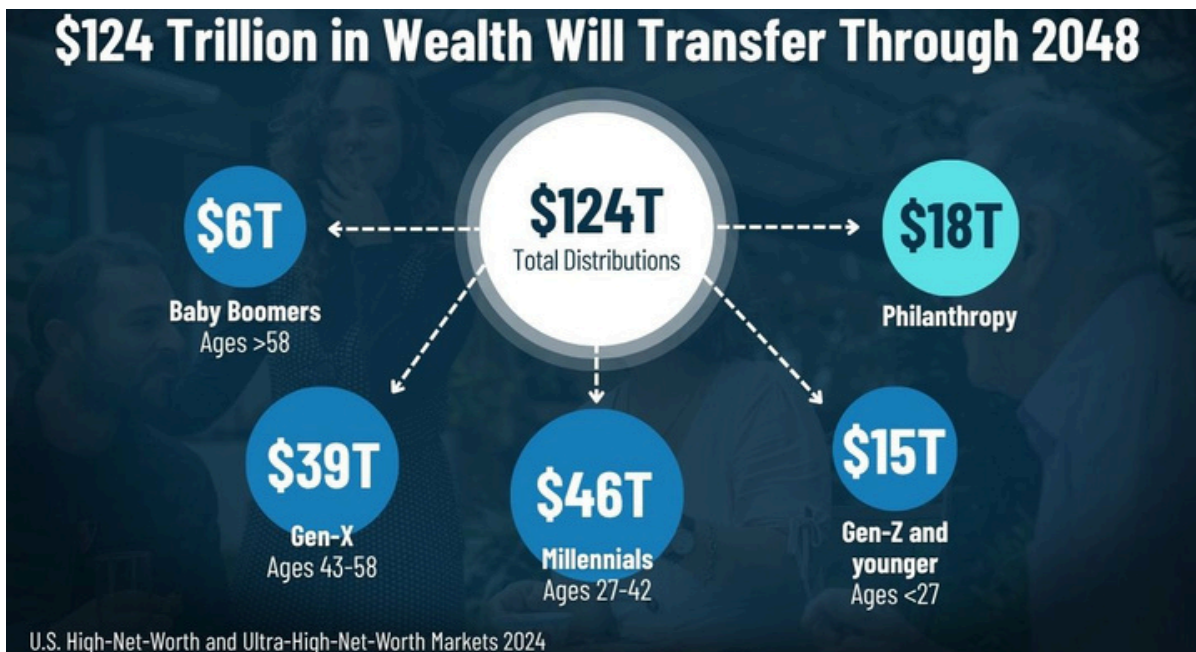
Cerulli projects that of the total, \$105 trillion is expected to flow to heirs and \$18 trillion to charities. The bulk (81%) will be transferred primarily from Baby Boomers (born between 1946 and 1964).¹

Millennials (born between 1981 and 1996) will be inheriting the most of any generation over the next 25 years (\$46 trillion). However, Gen X (born between 1965 and 1980) will inherit the greatest portion of assets in the next 10 years, totalling \$14 trillion.¹

So, determining how to transfer these assets may be a discussion you want to start having now.



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Shift in Gifting Philosophy

Legacy gifting after death has long been the most popular way households have distributed their wealth. Today, however, a growing number are opting for lifetime or intentional gifting – passing along money in a deliberate way while still alive.²

The rise in intentional gifting may be attributed to several factors, including a desire to help family during one's lifetime, a greater understanding of taxation and lifetime gifting limits, and the prevalence of gifting choices.²

Benefits of Lifetime Giving

There are pros and cons to gifting assets during your lifetime. Here are some of the tradeoffs we've seen when working with our clients:

- **Manage the size of your taxable estate**

A potential benefit of financial gifting during your lifetime is managing the size of your taxable estate. However, it also removes the money from your control and transfers it to others, which can be a concern for some.

For 2025, the IRS allows individuals to gift up to \$19,000 (\$38,000 for married couples) per year without being a taxable event for the recipient. There is no limit on the number of individuals you can gift. For example, a married couple with two children and five grandchildren can transfer up to \$266,000 annually.^{2,3}

In addition, for those with sizable assets, the IRS allows individuals to gift up to \$13.99 million (\$27.98 million for married couples) to their heirs under the lifetime gift and federal estate tax exclusion.^{2,3}

Managing the size of your estate may help limit your exposure to federal and (some) state estate or inheritance taxes. Although some states, such as Florida and Texas, impose no estate or inheritance tax, others, like Massachusetts, Oregon, and New York, levy their own estate taxes. For some families, state-level taxes can take a bite out of the inheritance left to loved ones.

By managing your estate, you may be able to preserve more of your hard-earned wealth for your family while keeping an eye on taxes at both the federal and state levels.

- **Experiencing the fulfillment of gifting to charity**

If you want to see your assets at work, you may choose to give to your favorite charity while you are alive instead of (or in addition to) making a philanthropic bequest part of your estate intentions.²

Not only can giving to a qualified charitable organization help you manage your taxable estate, but you may also see some tax benefits.²

We provide these insights for informational purposes only. They are not a replacement for real-life advice. We would encourage you to consult your tax, legal, and accounting professionals before modifying your gifting strategy. As financial professionals, we can show you the benefits and limitations of gifting to charity, or help you as you work with your tax professional.

Donor-advised funds are becoming increasingly popular among affluent families who wish to engage in charitable giving. These professionally managed funds allow individuals to make irrevocable contributions (meaning once they are given, they can't be taken back) of cash, securities, or appreciated assets. The donor may be able to claim a tax deduction in the year the donation is made and then make grants to a charity of their choice in the future.²

Some donor-advised funds are considered mutual funds and are sold only by prospectus. The prospectus will provide information on charges, risks, expenses, and investment objectives and should be reviewed carefully before investing. Investment companies can provide a prospectus, or you may prefer to ask your financial professional. Please read it carefully before you invest or send money.

Current federal tax law lets donors take immediate federal income tax deductions of up to 60% of their adjusted gross income for cash donations and 30% for appreciated assets.³

- **You are around to enjoy it**

Watching your loved ones use the inheritance you've spent a lifetime building can be extremely gratifying. We've seen parents and grandparents help their families start businesses, pay for education, and take annual vacations.

With the increasing cost of home ownership and higher mortgage rates, some clients are giving the gift of homeownership that has become out of reach for many younger Americans.

- **An opportunity to share your values and provide financial education**

Being financially successful, you may want to help teach your heirs to be responsible with the inheritance they receive. Gifting during your lifetime gives you a unique opportunity to discuss how you obtained your wealth and reinforce your values about money, the meaning of wealth, and your philosophy about giving back to your community and the larger world.

- **Build stronger family bonds today and help manage potential disagreements after you're gone**

Gifting to family may allow you to strengthen your relationships as you age by providing financial support during critical stages in their lives, from college to weddings to buying a home to starting a business.

The flexibility of lifetime giving allows you to structure gifts in a way that aligns with your intentions and your loved ones' needs.

Intentional gifting can also help manage problems later on.

Family infighting about money happens more than you might think after a parent passes away. With emotions running high, even the closest family may have disagreements, resulting in long-lasting hard feelings, especially when the parents' final wishes are subject to interpretation.

Instead of leaving family members (and possibly the probate court) to decide how best to distribute your estate, you may be able to prevent some sibling squabbles by passing assets along while you're around to direct how your wealth is distributed.

Using Financial Instruments for Gifting

We've already mentioned a few tips for crafting a gifting strategy, like starting with open and honest dialogue with all parties and working with professionals to navigate financial, tax, and estate considerations. Based on your family's situation, you may also want to think about using appropriate financial instruments, including trusts and 529s, to help structure your gifting.

Trusts

Beyond outright gifting of assets, depending on your circumstances and preferences, you may want to consider setting up a trust during your lifetime. There are several types of trusts:³

- **Irrevocable Trusts** allow a donor to gift assets into the trust to benefit their heirs, who can use the assets while the donor is alive. Since the donor no longer owns the assets, the trust can be designed to exclude the assets from that donor's estate. The trust may shield assets from probate, creditors, bankruptcy, and a beneficiary's potential divorce.

- **Grantor Retained Annuity Trusts (GRAT)** let individuals move assets out of their estate while still allowing them to access holdings while alive. The donor receives fixed payments on the transferred assets for a set number of years. What assets are left after the term is distributed to the trust's beneficiaries aren't included in the donor's taxable estate.
- **Spousal Limited Access Trusts (SLATs)** may offer married couples a way to take advantage of the lifetime gift and federal estate tax exclusion. The donor makes a gift to the trust, and the assets are removed from the taxable estate, but a spouse may receive funds during their lifetime. This can be a strategy for those concerned about permanently gifting away too much of their wealth.
- **Charitable Remainder Trusts** allow the donor to receive income from the trust for a set amount of time, and the assets remaining at the end of the term are distributed to the donor's preferred charities. The donor receives a charitable deduction, and upon their death, the value of the remaining interest in going to charity is excluded from their estate.

Using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional familiar with the relevant rules and regulations. As financial professionals, we can help you structure this type of conversation with other professionals.

529 Accounts

For grandparents and relatives looking to make a difference during their lifetimes, giving the gift of a college education can be a contribution they can make to a child's future.

All 529s have an account owner and a beneficiary. The account owner controls the account.

With an Individual 529, the most common type, an adult, usually a parent or grandparent, is the account owner, and the child or grandchild is the beneficiary.⁶ With a Custodial 529, the account must be managed by a custodian, typically a parent or grandparent, until the student reaches the age of majority in their state, when they can control the account.^{5,6}

Here is a brief overview of what you need to know about gifting to a 529:⁵

- **How to give to a 529:** Relatives have several options to contribute to a 529. They can directly contribute to an existing 529 set up by the parent. Most 529s allow friends and family to contribute directly to an existing account. Many states make this easy by offering online gifting portals. Relatives can also open their own 529 account for a child. This allows them to control the funds and ensure they are properly used.
- **Gift tax rules and contribution limits:** For 2025, grandparents or other relatives could contribute up to \$19,000 (\$38,000 per couple) to each grandchild's 529 in a year without triggering the need to file a gift tax return.

- **Super-funding a 529:** For those looking to make a larger contribution, the IRS allows an individual to contribute up to five times the annual gift tax exclusion (\$95,000 in 2025) in a lump sum and then spread the amount over five years for tax purposes. Taking advantage of this strategy can quickly and significantly impact the child's education savings.
- **Financial aid considerations:** If financial aid is a concern, 529s owned by relatives can be treated more favorably in financial aid calculations than those owned by the parent. Parent-owned 529s are considered parental assets and have a low impact on financial aid, while a grandparent's or other relative's owned 529 plan is not counted as an asset on the FAFSA and doesn't affect aid eligibility.
- **529 rules to consider:** A 529 plan is a tax-advantaged college savings plan. Before choosing a plan, it's important to consider not only the state tax treatment but also any associated fees and expenses. Availability of a state tax deduction will depend on your state of residence, as state tax laws and treatment may vary from federal tax laws. If you make nonqualified distributions, earnings will be subject to income tax and a 10% federal penalty tax.

Potential Pitfalls and Misunderstandings

While lifetime gifting has become more attractive to people for personal and financial reasons, there are some factors you should keep in mind.

Over-Gifting Risks

Before embarking on an intentional gifting strategy, consider working with a financial professional who can help you evaluate whether you might be compromising your personal finances by giving beyond your means.

For many clients, the adage "you can't take it with you" applies. They have accumulated enough wealth to maintain their lifestyles, whether short or long, throughout their retirement years.

Of course, there are stories of parents giving to their children without managing what they set aside for themselves. In these cases, the gift is usually to solve a short-term problem, not part of a long-term strategy. By spending down their assets too quickly, these parents may become financially dependent on their children in the long run.⁴

Remember what you are told on every flight – "Make sure your own mask is on tight before helping others." The same applies to gifting.

Lack of Clear Communications

You should clearly articulate your intentions behind gifting your estate early to address the potential for misunderstandings or conflicts when expectations are not met.

If you are considering unequal treatment among your children, you may want to discuss with them the importance of fairness and transparency to prevent familial discord.

You may have valid reasons for different gifts. Some children may prefer to wait for their inheritance, while others could benefit financially from receiving the assets today.

Every family is different, and perceptions of fairness can vary. Open conversations with your children may help longer-term resentment or worse. While the decision on how to divide your estate is yours, getting input upfront can help clarify expectations and provide insight into the impact of your giving on your children's well-being and future relationship with you and each other.

Tax Implications

We've discussed the potential tax benefits of lifetime gifting, but the rules can be complex and prone to change. It's important to understand gift tax laws to avoid unintended consequences. Consider working with a tax professional if you are thinking about early gifting. These professionals can help you craft a strategy considering your circumstances and goals.

Conclusion

Gifting during your lifetime isn't just about generosity—it's a proactive estate management strategy. It might be able to help you manage your estate tax liability, align with your legacy intentions, and create opportunities to share your values and support when your loved ones may benefit most.

Whether you're helping a child buy a first home, funding a grandchild's education, or supporting a cause you care deeply about, early gifting allows you to be present for the impact. It also gives you greater control over how and when wealth is transferred and used.

As financial advisors, we can help you and your family if you decide if this strategy is a fit for your situation. We can help you tailor a gifting strategy by assessing your needs and goals, considering the timing and amounts of any gifts, and monitoring for any needed adjustments.

Please do not hesitate to give us a call to start a discussion.

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