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How To Pass Generational Wealth Tax Free

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Generational wealth — the various financial assets that are passed down through families to children, grandchildren and beyond — can come with pretty severe [tax burdens](#) for heirs. Estate planning is key to transfer your generational wealth down to loved ones. So is understanding how to pass it down in a tax-free way — or at least in a manner that reduces the tax onus.

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Here are some tips from financial experts on how to do that.

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iShares Gold Trust			
NJR	46.46	-0.60	-1.27%
New Jersey Resources Corporation			



“If a gift is worth more than \$17,000 in 2023, that doesn’t mean the gift tax is instantly due,” said Loretta Kilday, a [Debt Consolidation Care](#) spokesperson, litigation and transactional attorney and financial expert.

“Also, for 2023, the IRS lets a person give away up to \$12.92 million in assets or property during their lifetime and/or as part of their estate. You can pass on significant wealth tax free by gifting assets up to this exemption amount.

Real Estate Transfer: [Baby Boomers Secure Generational Wealth by Transferring Property to Children](#)

Irrevocable Life Insurance Trust (ILIT)

An ILIT is an irrevocable trust set up to own life insurance. Consider it a great tool in your box of ways to pass down generational wealth tax free.

“When the insured passes away, since the ILIT owns the life insurance, the proceeds are paid to the ILIT, not to the insured,” said David Bross, senior estate planner and shareholder at [Truepoint Wealth Counsel](#). “This keeps the proceeds out of the insured’s estate for estate tax purposes.”

Step-Up Basis

Another powerful way to pass generational wealth tax free is to use the basis step-up at death.

“Under normal circumstances, when a person sells an appreciated asset (such shares of Apple stock, a farm or a business), the person selling the asset will have to pay tax on the increase in the asset’s value since they acquired it,” said Christopher Sternau, a founding partner at [Evans Sternau CPA LLC](#).

“If the asset has increased in value over a long period of time, the tax can be significant; however, when a person dies, the tax basis of the assets they own are ‘stepped up’ to the fair market value at the time of death. This means that the new tax basis for the person inheriting the asset is equal to the value of the assets on the date of the original owner’s death, not the amount the original owner initially paid for them.

“The basis step up at death effectively erases any tax on unrealized appreciation. Holding an [appreciation] to death and passing it to

The Duckhorn Portfolio, Inc.

TTEK	162.63	-1.59	-0.97%
Tetra Tech, Inc.			

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Generation-Skipping Trusts (GSTs)

Kilday explained that generation-skipping trusts enable you to transfer assets directly to grandchildren or future generations — bypassing estate taxes that would typically apply to the intervening generation.

“GSTs allow for tax-free wealth transfer and can be an effective way to preserve wealth for multiple generations,” Kilday said.

Grantor Retained Annuity Trusts (GRATs)

GRATs are useful estate planning tools that allow you to transfer assets to future generations with reduced tax consequences.

“By placing assets in a GRAT, you retain an annuity payment for a specified period,” Kilday said. “At the end of the term, any appreciation in the assets beyond the annuity payments goes to the beneficiaries tax free.”

Bequeathing Roth IRAs

Bequeathing Roth IRAs to your heirs can be a powerful generational wealth building tool.

“Recent legislative changes from the SECURE Act slightly muted the generational benefits of this strategy, but it can still be very beneficial,” said Joseph H. Doerrer CFP, AEP, vice president of wealth planning at [Mezzasalma Advisors](#).

“If you do not already have a Roth IRA, you can consider converting parts of your Traditional IRA to a Roth IRA. This strategy is most beneficial when you do not plan to use the funds to fund your own retirement and are intent on leaving them to the next generation. Also, covering the tax bill generated by the conversion with non-retirement funds is beneficial.”



beneficiaries are tax free. He added, "I'd recommend working with an advisor to fully understand the intricacies of this complex strategy and [determine] whether it's right for your particular situation."

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f 529 Plans

If you have children with an academic future, consider a 529 plan.

"529 Plans are an amazing way to pass on generational wealth tax free," said Jeremy Grant, founder and CEO of [Knocked-Up Money](#), a personal finance blog for parents and parents-to-be. "The costs of education continue to rise every year, and millions are bogged down by student debt upon graduation.

"Funds from a 529 plan cover qualified educational expenses tax free. 529 Plans cover qualified expenses for college, trade school and even K-12 as well. You have the option to change beneficiaries if your child decides to take another path."

Family Limited Partnerships (FLPs)

Family Limited Partnerships (FLPs) can also be used to transfer wealth from generation to generation tax free.

"FLPs allow you to transfer assets to family members while maintaining control," said Michael Hammelburger, CEO and certified financial advisor at [The Bottom Line Group](#), a cost segregation firm. "You can take advantage of valuation discounts and reduce estate tax liability by putting assets into the partnership and gifting limited partnership interests to family members while keeping general partnership interests."

Charitable Giving

Though less direct than a gift or a 529 plan, charitable donations are one way to pass generational wealth without a tax onus. This is particularly useful if you don't have any named heirs.

"Philanthropy presents an opportunity to reduce estate tax liability while supporting causes close to your heart," said Kilday. "By donating to charitable organizations or creating charitable foundations, you can lower your taxable estate and potentially offset other taxable gains. Consult with a financial advisor to explore various charitable giving strategies that align with your goals."

Final Note




"It is critical to consider your jurisdiction's specific tax laws and regulations," Hammelburger said. "Tax laws vary greatly between countries, so it is best to consult with tax professionals or estate planning attorneys who specialize in your local tax jurisdiction to ensure compliance and optimize your wealth transfer strategy."

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This article originally appeared on [GOBankingRates.com: How To Pass Generational Wealth Tax Free](#)

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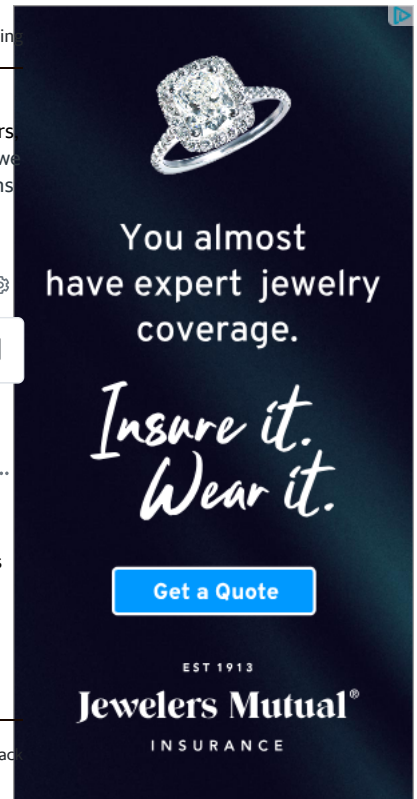
Couple of cautions: First, charities prey on older people. Second, they sell their donor lists to other charities. My FIL decided to give half of his annual income to charity when he got into his 80's. By the time he passed away in his 90's he was getting 18 to 24" of charity requests A DAY! H...

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