



Thorley Wealth Management, Inc.
Elizabeth Thorley, MS, CFP®, CLU®, AIF®, AEP®
CEO & President
1478 Marsh Road
Pittsford, NY 14534
585-512-8453 x205
Fax: 585.625.0477
ethorley@thorleywm.com
www.thorleywm.com



Making Nongift Gifts (or Gifts Not Subject to Tax)

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What are nongift gifts?

Nongift gifts are gifts that are not treated as gifts for federal generation-skipping transfer tax (GSTT) or federal gift and estate tax (estate tax) purposes. There are two types of nongift gifts: qualified transfers and qualified disclaimers.

What are qualified transfers?

Qualified transfers are specific types of gifts that are fully exempt from GSTT or estate tax. A qualified transfer is any amount you pay on behalf of someone else for tuition or medical expenses.

Tuition

If you pay tuition directly to an educational institution for someone else, you have made a qualified transfer that is fully exempt from GSTT and/or estate tax. The tuition, however, must be paid directly to the educational institution to qualify.

Example(s): *Dick and Martha want to help their son, Matt, pay for college. They give Matt an annual allowance for tuition, books, living expenses, and whatever else he needs. Matt pays his tuition at the beginning of each school year. Dick and Martha have made a taxable gift that does not qualify for the qualified transfer exemption.*

Example(s): *However, Bob and Ken want to help their niece, Carol, pay for college. Carol decides to go to Ivy League College. Bob and Ken send a check (in the amount of Carol's annual tuition, made payable to Ivy League College) directly to the admissions office. Bob and Ken, who put their written receipt with their tax records for that year, have made a qualified transfer that is fully exempt from estate tax.*

Medical expenses

If you pay medical expenses directly to the medical care provider for someone else's care, you have made a qualified transfer, fully exempt from GSTT and estate tax. The payment, however, must be made directly to the medical care provider to qualify.

Example(s): *Tom's mother-in-law, Connie, is very ill. Dr. Smith is treating Connie. Dr. Smith's bills have grown quite large, and Connie can no longer pay for them herself. Tom wants to help her, so he gives her enough money so that she can pay off Dr. Smith's bill. Tom has made a taxable gift that does not qualify for the qualified transfer exemption.*

Example(s): *However, Nick and Mindy have a lover's spat, and Mindy rushes away in her car. Just down the street, she crashes into a tree. Mindy is taken to University Hospital where she is treated and released after a few days. Nick feels guilty. He goes to University Hospital and pays Mindy's bill. Nick has made a qualified transfer that is fully exempt from estate tax.*

What is a disclaimer?

A disclaimer is a gift that fails to be completed because it is refused by the donee (the recipient). Once disclaimed, the gift is then distributed to the next recipient. The disclaimant (the person who refuses the gift) is regarded as never having received the gift. As a result, no gift is considered to have been made to the disclaimant, and no gift tax or GSTT is imposed on the disclaimant. A disclaimer must meet certain criteria to be recognized as a nontransfer for estate tax purposes.

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