

Reduce gift and estate tax exposure by making direct payments of tuition and medical expenses

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Now that the gift and estate tax exemption has risen to \$11.7 million for 2021, you may be less concerned about these taxes. But if you have children or grandchildren in college or with medical expenses, you may want to take advantage of the exemption for direct payments of tuition and medical expenses. It can provide a valuable opportunity to reduce your potential gift and estate tax exposure down the road.

Inject flexibility into your plan

The exemption allows you to pay tuition and eligible medical expenses on behalf of your children or other loved ones without incurring gift tax and without using up any of your exemption amount. 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? What if lawmakers decide to reduce the amount? Either way, your estate could end up with a hefty tax bill, leaving less for your family.

You may already be making \$15,000 per recipient annual exclusion gifts to your children, grandchildren or other loved ones, which can help minimize your estate, but you should also consider paying some or all of their tuition and eligible 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.

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 exemption 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. If you have questions about making direct payments of tuition or medical expenses, please contact us.

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