



Economic and Market Insights

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Giftting Strategy of the Future: “Please Send the Bill to Grandma”

*As head of The Commerce Trust Company's East Region tax group, Tom Bassett uncovers helpful strategies and shares his perspective on preparing for next year's taxes.**

Q. Are there any new developments in 2015 that will help grandparents who wish to assist their grandchildren with education expenses?

A. One underused provision of the existing tax code allows grandparents to fund their grandchildren's higher education tuition costs without reducing their ability to gift the maximum \$14,000 annual allowance to their children or grandchildren.

Q. What can grandparents do to take advantage of this provision?

A. The IRS does not view a grandparent's direct payment of a school's tuition bill on behalf of a grandchild as an amount counted against their \$14,000 annual gifting allowance. As a result, a grandparent can write a tuition check directly to a grandchild's private school or university, even for multiple years of tuition in advance, and still “gift” up to \$14,000 annually to their adult children or to their grandchildren.

Q. Is direct payment of tuition the only category that receives this favorable treatment?

A. Medical payments also qualify for direct payment, but food and housing payments do not.

Q. Can you give us an example?

A. A grandchild needs braces for her teeth. Have her orthodontist send the bill directly to grandma. It's not a gift tax-reportable event.



Q. Where can those lucky enough to have this break learn about the IRS rules governing this gift tax exclusion?

- A. The current Internal Revenue Code on Taxable Gifts is Section 2503. It's one of the greatest gifts Congress has ever extended in the taxable world. And in the new world of "mandatory" health insurance, it's even better – this exception also applies to direct payments of insurance premiums for children and/or grandchildren.

**Always consult with your CPA and professional advisor on matters involving income taxes.*

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