

**From the desk of  
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# **Tax Implications of Gifted Stock**

One of the great ways to transfer wealth to other family members, or anyone for that matter is to gift appreciated stock, or stock that has the potential of appreciating.

Gifted stock is the transfer of stock from one person or entity to another.

Gifting shares of stock that has the potential to grow significantly in value is a great estate planning tool setting children or other family members to gain the ownership of that wealth while the donating parent is still alive.

The gift is subject to gift tax and generally can result in a large tax bill for the recipient when they decide to sell, but potentially less than that the donating party would incur and removes the value of the gifted stock from their estate.

Stocks can grow or decline in value, and it is important to know how these gifts are taxed, and at what time.

There are two key components as to how gifted stock is taxed, one at the point in time when the stock is transferred to the recipient, or in other words, at the time of the gift, and when that gifted stock is sold by that recipient.

## *Understanding Gifted Stock*

Those who desire transferring their wealth to other family members, or others, should consider whether it makes more sense to gift stock or sell it and then give away the

proceeds. That answer generally depends on the value of the stock being given and the tax status and tax brackets of both the recipient and the donor.

## **Tax Considerations**

For 2024 the Internal Revenue Service (IRS) allows you to give up to \$18,000 per person, or \$36,000 per married couple without reporting it or paying gift taxes. In 2025 this amount increases to \$19,000, or \$38,000 for a married couple.

Amounts above these amounts can also be gifted and avoid the gift tax by using some or all of the lifetime gift tax exemption, which is for 2024 \$13.61 million per person, or \$27.22 million for a married couple.

For tax year 2025 those amounts increase to \$13.99 per person, or \$27.99 million for a married couple.

It is worth noting that President Trump has stated he will extend these limits once in office.

A gift tax return would need to be submitted for any amounts gifted that exceeds the annual gift exclusion.

The gift tax which can range from 18% to 40% on a sliding scale depends on how large the taxable gift is, and only paid only when gifts exceed the lifetime gift tax exemption.

Gifts can also include physical assets, stocks, bonds, cash, property, or anything else of value.

The lifetime gift tax exclusion is the value of gifts you can give in total over your lifetime.

Capital gains taxes must also be considered. If you were to sell the stock and gift the proceeds, you would need to report any capital gains and pay the tax after accounting for its cost basis. In this case, it may be worth gifting the stock, particularly if the recipient has a lower tax rate.

When gifting stock, the recipient assumes your cost basis and holding period.

The donor must calculate the value of the gift at the market value on the date of the gift which by IRS requirements is the average value on the date the stock is transferred.

Losses are treated differently. If the stock depreciates after it was gifted and the recipient then sells it, then the fair market value (FMV) on the date of the transfer is used to determine the loss.

The same rules apply if this gift is going to a child. In theory, your child would pay less in capital gains taxes when disposing of the gifted stock, assuming they earn little to no

income, however, there is what is known as a Kiddie Tax which must be applied which means that anything over \$2,300 could be taxed at the guardian's tax rate. This does not apply if the stock was gifted by the grandparents.

### **Inherited Stock**

Inherited stock offers greater tax advantages than do gifted securities. All inherited stock is treated as long-term property, and the recipient's cost basis is the market value at the date of death of the owner at the time of death, or at anytime up to the alternative valuation date which is six months later after death.

When you are gifted stock, the holding period includes the time the donor owned the stock.

### **Capital Gains Tax for 2024**

For tax year 2024, individual filers do not pay any capital gains tax if their total taxable income is \$47,025 or below. Thereafter the capital gains tax goes to 15 percent on capital gains if their income is between \$47,026 to \$518,900, and above that income level, the rate increases to 20 percent.

### **2025 capital gains tax thresholds**

For 2025 (*returns normally filed in early 2026*), the long-term capital gains tax rates remain at 0%, 15%, and 20%, but the income thresholds have increased as follows:

#### 0% Rate:

Single filers: Up to \$48,350  
Married filing jointly: Up to \$96,700  
Head of household: Up to \$64,750

#### 15% Rate:

Single filers: \$48,351 to \$533,400  
Married filing jointly: \$96,701 to \$600,050  
Head of household: \$64,751 to \$566,700

#### 20% Rate:

Single filers: Over \$533,400  
Married filing jointly: Over \$600,050  
Head of household: Over \$566,700

Short-term capital gains (assets held for one year or less) are taxed at ordinary income tax rates, different from those for long-term capital gains.

In addition to the federal tax rates above, state income taxes also apply, and in many states such as California, there is no capital gains tax benefits, and all gains are taxed for state purposes at ordinary income tax rates. Many states, again such as California have no exclusions, therefore all income is taxed from dollar one.

Obviously, there are a number of considerations as to gifting stock, or any other assets, but doing so can eliminate future estate taxes, diminish overall current capital gains taxes, and provide financial assistance to family members at reduced tax levels.

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