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MISTAKES AND MISCONCEPTIONS: GIFTING

Estate planning, whether simple or complex, requires careful attention to details which, if overlooked or misunderstood, can undermine the plan's effectiveness. We will devote space in each issue to highlight common estate planning mistakes and misconceptions.

Although gifting is an important estate planning tool, having utility for both reducing estate tax liability and protecting assets from the costs of long-term care, gifting highly appreciated assets can create problems. During your lifetime, if you sell an asset that has appreciated in value, you pay capital gains tax on the profit. If you give the asset away during your lifetime, upon its sale the recipient pays the tax based upon your original cost. If, however, you give that same asset away after you die, through a will or trust, the recipient receives it at a higher cost basis equal to the fair market value as of the date of your death, a "step-up" in basis. It is, for this reason, important to understand the interplay between income, gift and estate taxation and to consider the entire financial and practical picture when gifting.