Giving Stock to Another Person

One of the most common and easiest estate planning tools is simply giving assets to a family member. The tax laws enable gifting up to $15,000 to anyone per year without triggering the need to file a gift tax return for 2020. In fact, a married couple can elect a technique called "gift splitting" and give up to $30,000 per year. It doesn't matter what form the gift takes – cash, securities or some other asset.

Why give to a family member?
Transferring assets to a family member while still alive reduces the size of your ultimate estate and potentially reduces any estate taxes that may be due. In addition, any growth in the value of the asset accrues to the recipient further reducing your estate.

But perhaps the most important reasons for making a current gift to a family member currently are the person needs the assets or you just want to show your generosity. You can see the person receiving and enjoying the gift.

Special income tax rules for gifts of stock.
Giving stock to another person does not trigger any income taxes at the time of the gift. The new owner can decide when to sell the stock and must deal with the taxes at that point. The critical issue is "What is the new owner's tax basis in the shares?" To determine the answer, you must know the stock's basis for the original owner, the fair market value on the date of the gift and whether any gift taxes were paid at the time of the gift.

The rules are somewhat complicated and you may want to consult your tax advisor, but here are some examples:

If the gift's fair market value at the time of the gift is greater than the donor's basis, the new owner will assume the basis of the donor. The new owner would pay tax on that difference when he or she sells the stock.
Assume a mother owned 100 shares of XYZ stock that she bought for $50 per share. She has a tax basis of $5000. At the time of the gift, the shares were worth $70 per share or $7000. She gives the shares to her son and he sells them for $80 per share or $8000. The son reports a gain of $3000 ($8000 minus $5000) when he sells the shares.

If the gift's fair market value at the time of the gift is less than the donor's basis, the new owner's tax basis depends on whether the new owner sells the asset for a gain or a loss. If the asset is ultimately sold for a gain (compared to the original owner's basis), the new owner's basis will be the original owner's basis.
Assume a mother owned 100 shares of XYZ stock that she bought for $50 per share. She has a tax basis of $5000. At the time of the gift, the shares were worth $40 per

share or $4000. She gives the shares to her son and he sells them for $80 per share or $8000. The son reports a gain of $3000 ($8000 minus $5000).

If the asset is ultimately sold for a loss (compared to the fair market value at the time of the gift), the new owner's basis will be the fair market value at the time of the gift.
Assume a mother owned 100 shares of XYZ stock that she bought for $50 per share. She has a tax basis of $5000. At the time of the gift, the shares were worth $40 per share or $4000. She gives the shares to her son and he sells them for $30 per share or $3000. The son reports a loss of $1000 ($3000 minus $4000).

If the asset is ultimately sold for something between the original owner's basis and the fair market value at the time of the gift, there is no gain or loss to report.
Assume a mother owned 100 shares of XYZ stock that she bought for $50 per share. She has a tax basis of $5000. At the time of the gift, the shares were worth $40 per share or $4000. If the son sells the shares for between $4000 and $5000, there will be no gain or loss to report.

Summary
Giving shares of stock or other assets to a family member can serve many purposes. However, the tax rules can be complicated. Before making such a gift, be sure this is something you really want to do and make sure you have the necessary tax basis information.