



## YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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### Plan Ahead for Gift Giving

Special occasions often call for gift giving: a graduation in May, a wedding in June, an anniversary in July, and birthdays throughout the year. Each event seems to sneak up on us -- and our budgets. Retailers plan for holidays and seasonal sales, so why not do a little gift planning of your own?

Here are a few tips for your planning list:

- Save now. Gift buying will seem more manageable if you've been saving for it a little at a time. Whether you set up a formal gift account and contribute to it regularly or just stash away a few extra dollars here and there, it's good to accumulate cash that is earmarked for gift giving.
- Put a cap on spending. Work out a gift-giving budget for the year that includes a comfortable spending limit as well as a detailed list of individual gifts with spending caps for each. Then stick to it.
- Avoid credit traps. If you must charge your purchases, put them on your bank credit card. Department store cards typically charge a much higher interest rate. And make sure you watch out for the "buy now, pay later" offers. Although tempting at the time, it is very easy to forget about a DVD recorder you bought in November if the first payment isn't due until March.
- Two for one. When you find a great deal on something nice, buy two -- one for yourself and one to give away. Then, when a birthday or other unexpected event pops up and catches you by surprise, you'll be prepared with a gift. Importantly, you will have avoided the last-minute (and often expensive) rush to buy something quickly.
- Take advantage of post-holiday sales. In Canada, the United Kingdom, and other Commonwealth countries they call it Boxing Day, but here it's just the day after Christmas. For those truly die-hard shoppers, it can be the best shopping day of the year. Stores slash already reduced prices even more to make way for spring inventories.

Gift giving is one of the easiest ways to overspend. But if you do a little planning before you shop, you'll approach each occasion with your budget and generosity intact.

### Give the Gift That Lasts a Lifetime

If you'd like to give a child money but want to do something more lasting than writing a check, consider setting up a custodial account under either the Uniform Gifts to Minors Act or Uniform Transfers to Minors Act (UGMA/UTMA) through a bank or investment company.

Custodial accounts can help finance a child's future and lessen the giver's tax burden. Here are a few details you should be aware of.

### The UGMA/UTMA Facts:

- There are no income limits affecting eligibility to fund a custodial account.
- You can gift away up to \$14,000 per child, each year (\$28,000 for married couples) to as many children as you like without owing gift taxes. Beyond those amounts, gifts may be subject to federal gift taxes.
- Gifts made to UGMA/UTMA accounts are considered irrevocable; once the child reaches legal age (18 or 21, depending on the state), he or she gains full control over the assets.
- Since custodial accounts belong to the child, account assets may decrease the amount of financial aid a child can receive.

## Beware the "Kiddie Tax"

Tax rules affecting UTMA/UGMA accounts bear careful consideration. Under the so-called "Kiddie Tax" rules, a child's investment income over a certain level is taxed at his or her parents' rate rather than the child's lower rate (typically 5% for most children). Prior to 2006, the Kiddie Tax rule applied only to children younger than 14. But the age limit has risen twice in the past few years.

Now the Kiddie Tax includes dependents up to the age of 19 and those up to the age of 24 who are full-time students. Any investment income earned in excess of \$2,000 will be taxed at the parents' higher tax rate.

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