Giving gifts that pay off

By Lynn Asinof | GLOBE CORRESPONDENT DECEMBER 13, 2015

Toys break, clothes wear out, and electronics become obsolete. So if you're looking for gifts with greater longevity, consider giving something with a financial twist.

Financial gifts often provide opportunities for learning. Some are designed to teach about saving and investing. Others keep the focus on the importance of college education. And still others serve as an introduction to charitable giving.

So, here are some ideas about making financial gifts that are interesting, useful, and perhaps even a bit of an adventure.

If the goal is to foster philanthropy, consider making a charitable donation in the recipient's name. For children, for example, you might want to look at Heifer International, a Little Rock, Ark., charity that promotes economic sustainability by providing needy families worldwide with livestock, equipment, and training. For $20, your donation will provide a family with a flock of chicks. For $150, a family will get irrigation pumps.

Kiva, a San Francisco nonprofit, takes a more interactive approach, attacking

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funds — provided in increments of $25 or more — are used for projects such as purchasing farm livestock in the Philippines, expanding a food shop in Kenya, or repairing an aging taxi in Pakistan.

Gift cards start at $25. The recipient can review potential borrowers, make a loan, track the progress as the loan is repaid, and then lend again.

Fidelity Charitable, a public charity created by Fidelity Investments, uses its donor-advised fund to let people “gift” the right to direct charitable giving from their accounts. Donor-advised funds allow people to make contributions, take the tax deduction right away, and give the money to charities.

Fidelity’s Gift4Giving lets people give family and friends anywhere from $50 to $5,000 from their accounts. Once the gift is received, recipients can make grants to charities of their choice.

If your granddaughter is, let’s say, a passionate environmentalist, you can give her $500 through this program. She can then choose which environmental groups to support, dividing it as she sees fit.

Financial gifts can also be used to promote savings. Parents, for example, can fund Roth IRAs for their children. This gift only works if the child has earned income, which could range from baby-sitting money to paychecks from that job at the mall. Contributions can’t exceed the kids’ earnings, which should be declared on their tax returns. Earnings of less than $400 are not taxed, if they are only source of income, says Michael Kaplan, a Boston tax attorney.

“I did that for my son,” said fee-only adviser Deborah Levenson of Braver Wealth Management in Needham. “I put in $2 for every $1 he put in his Roth.” These retirement accounts are attractive because they grow tax-free and contributions can be withdrawn at any time without penalty.

A session with a financial planner or tax preparation with an accountant can be a great gift for young adults who are trying to figure out taxes, pay off school debt, or decide whether they can afford to buy a house. Costs vary, but fee-only planner Dana Levit of Paragon Financial Advisors in Newton estimated that basic planning might cost from $500 to $700.

Or you can sign them up for a program such as those offered by Society of Grownups, a Brookline company owned by the Springfield insurer MassMutual. It offers programs geared to millennials and their financial concerns. For $40, you could buy them a supper club discussion, while $100 will get 90 minutes of financial planning. Other programs are free but require registration.

Lots of parents like gifts that introduce their children to investing. Such gifts are best tailored to the age of the recipient, Levit said. Stock in Disney is a popular choice for young children, while Apple shares might be a good choice for those a bit older, she said, noting that such gifts help to connect investing with products the kids already like. "That way," she said, "they're a little more relevant to the kids than the S&P 500."

If the goal is to give a gift that builds a child's portfolio, consider mutual funds. A good choice here might be a broad-based market index fund such as Vanguard Total Stock Market Index, a low-cost diversified investment that can grow over time, Levit said. Or you might prefer a target-date mutual fund — which can be pegged to the start of college or retirement — that shifts to less-aggressive funds as that target gets closer.

Gifts of college funding can have a big effect, with parents and grandparents setting aside money to pay future tuition bills. One popular approach: A 529 college tuition savings plan, which allows invested money to grow tax free and remain free of taxes when it is withdrawn to pay for college.

When making financial gifts, keep an eye on the tax rules. The annual gift tax exemption, currently $14,000, lets you make annual gifts of up to the exemption amount without triggering any gift tax considerations. Married couples can combine their gifts, bringing the exempt amount to $28,000 this year.

There is no limit, however, on the amount of money you spend to pay someone else's tuition or medical bills, as long as the money is paid directly to the school or medical facility. You can also take advantage of special rules that allow you to fund a 529 plan using up to five years of your annual gift tax exemption — $70,000 under current limits — at one time.

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