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The Strategist

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Safeguarding Your Gift to Adult Children When Buying a Home

A frequent goal we come across when preparing a 360° Wealth Strategy (aka: financial plan) for our clients is the desire to help their adult children or grandchildren with home ownership in some way, shape or form; most commonly:

A) Gifting them with a sum of money toward the purchase of their own home.

B) Parents own a secondary home in which they allow their child to live with some financial arrangement (such as paying rent and/or tax and utilities).

C) A shared ownership structure - the property is held in joint name, where the title is split: i.e. 50% Mom & Dad, and 50% Child.

Scenario A is the most straightforward and works well for many families and situations. One major consideration however, is if the gifted money is used to purchase what will become matrimonial property (whether by marriage or common law), it may be subject to division in the event of a relationship dissolution.

In Scenario B, the parents retain total control of the home, which not only keeps it in the family, but is important where there may be issues or concerns surrounding financial capacity or responsibility of the child. The drawback to this arrangement is assuming that Mom & Dad already have their own principal residence, if the property appreciates and is sold in the future, then they are on the hook for the tax on capital gains (currently, 50% of the total gain is taxable as income). In Scenario C, their gain and tax liability is decreased by half, but again the portion that is not in their control can be subject to spousal and/or creditor claims.

A solution that we've helped implement for a few families, is the use of a promissory note backed up by a charge against the new home. Taking it back to Scenario A where Mom & Dad want to give a sum of money toward a home, they do so in the form of a loan through a promissory note/mortgage. Of course, Mom and Dad can choose to forgive that loan at any time, including at their death. That said, as long as the note/mortgage is outstanding, the money due would have to be repaid prior to any martial and or creditor claims.

Furthermore, because the home is owned by the child, it can be classified as their principal residence and therefore, not subject to potential capital gain tax in the event of a sale.

In an untoward event or for some reason the parents choose to call in the note during their lifetime, the child would have to source the funds to make repayment such as use personal cash, take on a loan or mortgage, or sell it entirely.

As always, please consult your tax professionals before acting.

Larissa Ruditsch, B.B.A, CFP ®
Associate | Wealth Advisor

Quarterly Reminders

2020 RRSP Contribution Deadline

- Monday, March 1st

2020 Personal Tax Filing Deadline

- Thursday, April 30th

Upcoming Holiday Closures

- Monday February 15th (B.C. Family Day)

Update on the Team

As we approach a full year of pandemic life, Covid boredom is in full swing. However, all of us here have taken on new ways of keeping busy. Chris has taken to the Noom app to lose the Covid spread, he also has his OGRES (Old Guys Ride Every Saturday) bike rides to help! Alex has used the time to explore more camping spots on our beautiful island, and upgrade his skills in both carpentry and plumbing. Larissa has been passing the time with jigsaw puzzles. Not brave enough to try one with more than 1,000 pieces yet, however, she makes a point of choosing the designs that look the most challenging. To her "It's been a fun way to relax, but keep my mind occupied at the same time". Although boredom is an issue for many, somehow Erika has been struggling to prioritize both family time and staying active. She recently picked up a bike trailer for Elin and Annika. Luke and her can get their workout in, and the girls have a blast riding along behind – enough excitement to put them right to sleep (as evidenced in this photo). Finally, Caitlin has been busy learning how to build and create custom wood tables and art using resin!