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It is a common financial objective for parents to assist their adult children with the purchase of a home. The assistance may be in the form of a down payment on the original purchase or helping with mortgage payments if the child encounters some type of financial difficulty. In certain circumstances, an adult child can provide potential tax relief to the parents by utilizing the child's principal residence exemption on a second property owned by the parents.

In this edition of the Canadian Financial Planner, we shall review a number of strategies that families can use to provide assistance with home purchases. This may become complicated if the family has more than one child, as it will raise questions such as:

- will all children expect equal assistance with their home purchase?
- what if the income and housing needs of the children are not equal as they have different income levels or housing requirements?
- should the gift be considered a prepayment of the child's inheritance?

If the parents decide to provide financial assistance towards the purchase or upkeep of a child's home, two issues must be resolved - what are the best options to provide the necessary assistance and what risks may be encountered?

There are two risks that parents should consider when deciding to provide financial support. First of all, if the assistance is in the form of a loan, what are the consequences of the child being unable to repay the amount borrowed? If the capital is necessary to fund the parent's retirement, it should not be considered a risk free investment. Secondly, if the child is married or living common-law and subsequently separates how can the financial assistance provided by the parents be protected?

Financial Assistance Alternatives

If parents wish to provide financial assistance to an adult child with

the purchase of a home, their options include:

- a gift
- interest free or interest bearing loan
- loan guarantees or co-signing a loan
- RRSP Home Buyers' Plan
- loan from the parent's RRSP

Gifts

If a child requires financial assistance for a home purchase, the parents may consider an outright gift. This strategy has no tax implications and no legal agreements must be drafted. If there are multiple children, the parents should consider the family dynamics if amounts are gifted to some children but not others. In many cases, parents may be reluctant to provide assistance since they are concerned about the impact on the other siblings. One strategy that may satisfy the needs of all family members is to consider the gift a prepayment of the child's inheritance.

Loans

Parents can provide a loan to an adult child to assist with a home purchase. At the parent's option, the loan can charge an interest rate at fair market value, a discounted rate or an interest free loan. Even if the parents charge interest on a loan, such a strategy may still be desirable from the child's perspective. The advantages may include a lower rate of interest than is available in the market place or it provides financing the child would not otherwise receive due to insufficient income. The parents may decide to charge a lower rate of interest on the belief that it does not have to be declared for income tax purposes. This is not true as any interest income charged on the loan is taxable to the parent and non-deductible to the child. If the income is not declared for tax purposes, the probability of getting caught may be remote as it "all in the family," but it is foolish to take such a risk.

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