



CANACCORD GENUITY WEALTH MANAGEMENT

Gifting Money to Adult Children: Three Things to Consider

Do kids today really have it harder? Economically speaking, life may have been easier 35 years ago. Back then, the average cost of a home was only around 1.6 times the annual family income. With decades of rising home prices across Canada, today this figure has climbed to over eight times average income. For many younger adults, home ownership has become increasingly out of reach. Similarly, the cost of education has also rapidly increased, much faster than inflation. Today, the average annual undergraduate tuition will cost a student almost six times what it was back then. One thing in today's favour? A mortgage today comes with much lower interest rates — if one can afford to hold a mortgage!

The Difference 35 Years Can Make

| Average Cost | 35 Years Ago | | Today ^G |
|--------------------------------------|--------------------------|--|--------------------|
| | Actual Cost ^A | Inflation Adjusted Estimate to 2020 Terms ^F | |
| House (Canada) ^B | \$76,214 | \$170,390 | \$633,600 |
| Undergraduate Tuition ^C | \$1,058 | \$2,365 | \$6,463 |
| After-tax family income ^D | \$48,500 | \$108,430 | \$74,400 |
| 5-year mortgage rate ^E | 13.6% | N/A | 4.09% |

A: 1984 figures from Globe & Mail "2012 vs 1984: Young Adults Really Do Have It Harder Today", R. Carrick, 12/18/12; **B:** CREA National Statistics, Feb. 2019; **C:** Statistics Canada Table 37-10-003-01; **D:** Statistics Canada (after-tax) figures; **E:** Bank of Canada v122497, CANSIM 027-0015; **F:** Adjusted to end of 2019 for inflation using Bank of Canada inflation calculator, www.bankofcanada.ca/rates/related/inflation-calculator/; **G:** Latest figures used: Housing and mortgage rate data at Nov. 2019; Tuition reported for 2019/2020; Median family income reported by Statistics Canada for 2017.

As a result, many parents and grandparents are gifting funds to young adults to help them navigate these financial challenges. There are many reasons to gift money. It may be fulfilling to see what "inherited" funds contribute to while you are alive. Gifting assets to family members during your lifetime may help to reduce the overall family income tax bill. It may also provide an opportunity to teach adult children how to invest.

If you are contemplating gifting funds to adult children, here are three things to keep in mind:



1. Plan Ahead with Care

Before you consider gifting, it is important to ensure that you will have sufficient funds for your own retirement. There have been situations in which parents have suffered financial difficulties down the road because too much was gifted to children. With increasing life expectancies, careful planning for your own longevity and the associated costs is important, including unanticipated expenses such as long-term care or other health care costs.



2. Let It Go, or Consider Alternate Arrangements

One of the major concerns that many parents have when they gift assets to an adult child who is in a married/common-law relationship is what happens in the event the couple splits? However, if the funds are truly a gift, they should have no strings attached.

Instead, if there is a desire to protect funds in the family, this should be carefully planned from the onset. Various arrangements, if executed properly, may be viable alternatives to a gift. For instance, if funds are to be used by a married child to purchase a home, a potential alternative may be to gift funds to a trust to purchase the home. Or, a loan may be chosen over a gift. Since family law varies by province, legal assistance should be sought in the province in which the child resides.



3. Clarify to Avoid Future Discrepancies

It may be beneficial to create and retain documentation to avoid potential disputes. If the intention is to eventually equalize your estate between multiple beneficiaries, the gift could be structured as an advance of the beneficiary's future inheritance. Either way, this should be clearly communicated and documented. It isn't unheard of to have a situation in which family members question a past gift when settling an estate.

For a deeper discussion regarding your particular situation, Please reach out to us today.