

# Mom and Dad, Help! I Want to Buy a House

## *How Gifting Impacts Your Taxes and Your Child's Loan*

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Your child just finished college, landed a great job and identified the perfect starter home. But as he examines his finances, he finds he does not have sufficient funds in his bank account to buy a house, and with a minimum down payment, his monthly take home pay is a bit too low to cover the mortgage payments at this stage in his career. Discussing his disappointment with you, you offer to give him \$100,000 which is just enough to help make the home affordable. Now, what is the tax impact on you?

### **Is the \$100,000 gift subject to gift tax?**

In 2016, you can give your child \$14,000 cash or a total of \$28,000 from you and your spouse and not worry about having to file a 2016 gift tax return. If the child is married, you can also give the child's spouse \$28,000 (\$14,000 from each of you) for a total of \$56,000. The easiest way to accomplish this is to write two individual \$14,000 checks if you and your spouse are gifting only to your child, or four individual \$14,000 checks if you and your spouse are gifting to your child and to their spouse.

If you give more than \$14,000 per person in 2016, you are required to file a gift tax return to report the total gifts you made during the year. Assuming each of you is giving half of the total amount to your child, or \$50,000, you will each file a gift tax return reporting your \$50,000 cash gift to your child. The first \$14,000 is not a taxable gift; however, the remaining \$36,000 is a taxable gift.

In 2016, the first \$5,450,000 of assets gifted during your lifetime (and/or transferred on death) is exempt from estate or gift tax. If you have not previously made any taxable gifts, then your gift tax return will report a taxable gift of \$36,000 (\$50,000 total gift less \$14,000 annual exclusion) which reduces the \$5,450,000 exemption amount for future gifting or transfers at death to \$5,414,000 (\$5,450,000 – \$36,000).

You will have to file a gift tax return to report gifts in excess of \$14,000 to your child, but you will not pay gift tax on this transfer, and will not pay gift tax on future transfers, until you have given away more than your total exemption of \$5,450,000.

### **Will receiving a gift make it difficult for my child to be approved for a loan?**

The process of accepting a gift for the down payment is not particularly complicated, but you should expect that it may require some additional effort and paper work. Be sure your child discusses the gift with his lender prior to you making the gift to ensure the proper paper trail is established.

The underwriter may require you to write a Gift Letter for your child to submit with his loan paper work. Be prepared to write a brief letter that includes the relationship between the home buyer and the person giving the gift, the amount of the gift, the address of the home being purchased, and a statement that the money is a gift and not a loan that must be repaid. Additionally, the underwriter may want to see proof that the funds came from your account and were deposited to your child's account. So, be prepared to provide a copy of your bank statement to help establish the paper trail.

Producing and providing the correct paper trail can be tricky, and obtaining copies of the transactions may be time-consuming and tedious. One way to avoid the extra work may be to "season" the funds by transferring them to your child a few months ahead of time. A shortcut that may make the entire process easier is to add the sentence "Will wire the gift directly to escrow at time of closing" to your gift letter to help avoid the required paper chasing. You can then request the wiring instructions from the escrow agent to wire the exact amount of the gift directly to the escrow company handling the sale a day or two before closing instead of writing a check directly to your child.

Of course, before gifting money for a down payment, it's a good idea to consult your tax adviser to understand how this might impact your taxes and other aspects of your finances. Additionally, your child should consult his lender to understand the lender's down payment and documentation requirements.

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