

This Christmas: Treat Your Kids to a Down Payment!

It's nice having our adult children home for the holidays. But if they are still living at home throughout the year, it may be because they have insufficient liquidity to afford a down payment for their own home.

☒ If you need to help them out, you can either:

1. Gift them the down payment, or
2. Co-sign their loan

Under the first option, as long as your son/daughter can demonstrate they have had the funds in their bank account for two full monthly statement periods, your gift would be treated as if it were their own savings. And, the annual federal gift tax exclusion allows you to gift up to \$14,000 in 2014 without it counting against your \$5.34 million lifetime estate tax exemption.

If you elect to co-sign, then the down payment would come from you as a co-borrower (and so this would not be deemed a gift). But make sure the mortgage payments are made on time, because your credit will otherwise be adversely affected.

This is a crucial time of year if you or your children are in the market for a mortgage, particularly if self-employed. You will need to ensure that your 2014 tax return has sufficient income to support the required housing ratios. As an example, what you expense may make or break the ability for you to obtain the loan amount you need – because it is the “net after expense income” that counts when qualifying for a mortgage (not the gross income you generate).

Here's the Point: If you are contemplating a mortgage or giving someone a gift, spend some time with your accountant as

soon as possible to discuss how best to report your 2014 taxes.