

Ask a Trust Officer

A Parental “Buyer’s Assistance Program”

DEAR TRUST OFFICER:

Finally, our son’s and daughter-in-law’s dream of owning their own home seems within their grasp. The hand metaphor is apt, because they still need a helping hand from us. Any tips about the best way to help them? We’ve been reading about the tax credit for first-time homebuyers and admit we are a bit confused about it. Clarification gratefully appreciated!

–LENDING A HAND

DEAR LENDING:

Let’s start with the tax credit. It should prove helpful, but would have been even more welcome had it remained at \$15,000 as originally proposed, instead of being pared down to a maximum of \$8,000. The good news is that, unlike the 2008 credit, it’s *truly* a credit—it does not have to be paid back. Last year’s credit came with a repayment requirement. Any other conditions? Of course! It’s a tax rule. Your children need to buy the home before December 1, 2009. They lose all or part of the credit if they have a “modified adjusted gross income” of more than \$150,000. And, in most instances, they forfeit the credit if they sell their home within three years of purchase.

Now about the financial assistance. The simplest thing to do is write a check. There’s no income tax to worry about, only, possibly, the gift tax. The gift tax annual exclusion is \$13,000 but it can shelter much more—up to \$52,000 if you and your spouse make gifts to both your son and daughter-in law. But they need to confirm with the lender that they will be counted as gifts, not debt. (The lender may ask for proof.)

A loan is another option. Just don’t make it interest free or at a below-market rate. The IRS uses tables to determine the minimum interest that you should charge (it’s quite low right now). Use the tables as a reference point so you avoid any tax complications.

Finally, if it helps, you could cosign on the mortgage—as long as you understand that you’re “on the hook” if your children don’t make the payments. If you go this route, ask your tax advisor about what impact it might have on the tax credit.

Do you have a question concerning wealth management or trusts?

Send your inquiry to HeartlandTrust@hbtbank.com.

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