Give a little bit…

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"Give a little bit… there's so much that we need to share." – Roger Hodgson, Supertramp (1977)[1]

While forty years ago Supertramp's Roger Hodgson wrote about giving love, life and time to others, Canadians are also keenly interested in giving a little bit of their wealth to family members, according to one CIBC Gifting Poll.[2]

Have you ever considered making a significant financial gift to your children, grandchildren or other family members, perhaps on the occasion of their wedding or to help them financially so they can move into a place of their own? In the CIBC Gifting Poll, (2017), 76% of Canadian parents of an adult child say they'd give their child a financial boost to help them move out, marry or live with a partner, with nearly half of them (47%) giving monetary gifts of $24,000 per gift on average.

Interestingly, 65% of parents also said they would rather give their children financial gifts than have their children (and their children's spouses or partners) live with them.

To help you with your gifting plans, here are answers to some common questions.

What can I gift?

Cash is probably the easiest gift to make, whether by writing a cheque, wire transfer, or e-transfer. Alternatively, you may consider making a gift of property "in-kind." For example, you may wish to transfer securities from your account to your child's account or transfer legal title of real estate to your kids.

How much can I gift?

There is no limit on how much you can give, either in your lifetime or upon death. Significant cash receipts, however, may need to be reported to government authorities. For example, if the recipient of your gift deposits cash totaling $10,000 or more to a Canadian bank in one day, the bank would need to report the transaction(s).[3]

Although you can give as much as you wish, you should only give only amounts that you are certain you won't need to support your own lifestyle and goals. A financial advisor can help you to analyze your financial situation and determine how much "never money" (funds that you will never need during your lifetime) you may have. A written financial plan that takes into account your future income and projected spending can help you decide if you can afford to make your desired gift without impacting your desired lifestyle.

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1 Supertramp. "Give a Little Bit." By Roger Hodgson. Even in the Quietest Moments... A&M Records, 1977. LP.

2 The *CIBC Gifting Poll* was conducted in July 2017.

3 Canadian banks, for example, are reporting entities that must provide details of large cash transactions to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). See fintrac-canafe.gc.ca/reporting-declaration/Info/rptLCTR-eng.asp.

To whom can I gift?

You can make gifts to anyone you want, including your children, spouse or common-law partner, parents, grandparents, uncles, aunts, nieces, nephews, friends, charities or even complete strangers!

When can I gift?

You can make “inter-vivos” gifts during your lifetime, or “testamentary” gifts upon your death. As noted above, you should only use “never money” for inter-vivos gifts, to avoid depleting funds that you will need for yourself (and your spouse or partner) during your lifetime(s).

By making gifts during your lifetime, you will often be able to see your beneficiaries enjoying your gifts and there may even be opportunities to reduce taxes (discussed below).

In fact, more than half (54%) of Canadian parents surveyed in the CIBC Gifting Poll say they’ve given or plan to give a significant gift or early inheritance to their children or grandchildren. 36% of these parents said it makes sense because their (grand)children “need the money now”, 26% said they want to “take pleasure in seeing their (grand)children enjoy their financial gifts”, while only 11% say they “feel obligated to help their (grand)children get a good start in life.” While 38% say they wouldn’t tie their gift to any specific milestone or special occasion, nearly 1 in 4 (23%) would give when the (grand)child buys their first home and 16% would give upon marriage / union or co-habitation with a partner.

For most parents, being on the receiving end of an inheritance themselves could trigger them to share the wealth. In fact, the CIBC Gifting Poll found that a large majority of parents (71%) say they would pay it forward and pass a portion along to their children or grandchildren if they were to receive an inheritance today.

What form should my gift take?

The most accessible source of funds may be your chequing or savings account. Indeed, half (50%) of Canadian parents who plan to give their adult child a financial gift said they would use cash to fund their gifts.

If you want to access funds from an investment account, it generally takes two business days to settle a sale of investments if you want to gift cash. Alternatively, you may be able to transfer investments in-kind to the recipient’s account, although this can take longer. Both of these transactions may have tax consequences, which are discussed below.

Instead, you may wish to withdraw money from a registered plan, such as your Tax Free Savings Account (TFSA), Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF). RRSP and RRIF withdrawals may be subject to tax, as noted below. As with non-registered investments, it can take some time to sell investments prior to a cash withdrawal, or to arrange an in-kind transfer to your recipient’s account.

Borrowing to fund a gift is another option; however interest costs can make this an expensive one. As many as 14% of parents surveyed in the CIBC Gifting Poll will go this route to help fund a gift for an adult child to help them get a good start when moving out.

If you have untapped equity in your home, you could consider taking out a secured line of credit or mortgage, using your home or cottage as collateral, and borrow funds to provide a gift that could enable your children to buy their own home or fund another major purchase. With any of these options, you could consider having the recipient of your gift pay the interest on the funds you borrow.

Will I pay tax when I make a gift?

Many people are confused about the taxes associated with making a gift. Over half (57%) of all Canadians surveyed in the CIBC Gifting Poll admit they don’t know what taxes exist on a financial gift to a child or relative, 11% answered incorrectly, and only about one-third (31%) of them correctly identified that there are no taxes on monetary gifts.

It is important to keep in mind that there can be taxes arising depending on what is given away. When you make a gift of assets “in-kind,” you will generally be treated as if you have sold the gifted property at fair market value and you will pay tax on 50% of capital gains in non-registered accounts. There are some exceptions to this rule. For example, when you make an in-kind gift to your spouse or common-law partner, your deemed proceeds of disposition (and your spouse’s or common-law partner’s adjusted cost base) will equal your adjusted cost base. This provides a deferral of tax, although you will pay tax on any capital gain when the property is ultimately sold by your spouse or common-law partner.[4]

While there will be no tax on a sale of assets within a registered plan, funds taken from an RRSP or RRIF to fund a gift will be subject to tax at your marginal tax rate. A withdrawal from your TFSA will be tax-free and the withdrawal value will generally be added to your TFSA contribution room for the following calendar year.

Will the recipient of my gift pay tax?

Almost one in 10 (9%) surveyed incorrectly believe that recipients pay income tax on some or all of the gifts they receive. In fact, the recipient will pay no income tax[5] in Canada on your gift.

In most cases, however, a Canadian recipient of your gift will pay tax on any future income that is earned on the gifted funds, which may provide opportunities to income-split and save tax for many years to come.[6]

For example, suppose you pay tax at a marginal rate of 50% and your adult daughter pays tax at a marginal rate of 20%. If you make a gift to your adult daughter of $100,000 and she invests the funds to earn 5% income annually, the overall tax paid by your family in total could be $1,500 less each year [$100,000 times 5% times (50% minus 20%)].

Normally, you will not split future income if you make a gift to your spouse or common-law partner unless the two of you make a special election for tax purposes. Although he or she will not pay income tax on the gifted amount, you will continue to pay tax on any income earned on the gifted funds in the future.[7]

Finally, upon your death, estate administration taxes (probate fees) may range up to about 1.7% of the assets in your estate (depending on the province) and could decrease the amount available to your beneficiaries. By gifting assets before you die, these assets will not be subject to probate fees because they will not be part of your estate.

Will there be tax in other countries on my gifts?

Other countries may have gift, estate or inheritance taxes and probate fees that may apply to your gifts, even if you and the recipients of your gifts live in Canada. For example, if you are a U.S. citizen or green-card holder, or if you are a Canadian who is gifting certain U.S. property (such as U.S. real estate), U.S. federal gift and estate taxes may apply (at rates up to 40% in 2020) to the value of gifts that you make. Furthermore, some U.S. states also have estate and / or inheritance taxes.[8]

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4 Alternatively, you and your spouse or common-law partner may elect the fair market value of the property as your proceeds of disposition (and your spouse’s or common-law partner’s ACB). This could be useful, for example, to trigger capital gains if you have capital losses that could be used to offset those gains. If no election is made, you (and not your spouse or common-law partner) will continue to be taxed on future income and capital gains from the property under the attribution rules.

5 Transfer or sales taxes may apply to certain gifts, such as gifts of real estate and vehicles.

6 Under the attribution rules, you may still pay tax on the future income. Under the Tax On Split Income (TOSI) rules, the recipient may pay tax at the highest marginal tax rate. You should consult with a tax advisor regarding these rules.

7 Certain strategies, such as lending funds to your spouse at the Canada Revenue Agency’s prescribed interest rate, may prevent this “attribution.” Otherwise, you would continue to pay tax on future income and capital gains.

8 For a list of states that have an estate or inheritance tax in 2019, with information for 2020, see: *Does Your State Have an Estate or Inheritance Tax?,* Tax Foundation, October 16, 2019.

These taxes may reduce the amount available to your beneficiaries when you make gifts during your lifetime or upon your death. This is a complex area and you should consult with U.S. tax and legal advisors before making gifts if you have U.S. citizenship or are a green-card holder or have assets or beneficiaries in the U.S. or other country.

Can I control how the recipient uses the gifted amount?

When you transfer property directly to the recipient, you usually lose control over how the recipient uses property. Yet half (50%) of parents surveyed in the CIBC Gifting Poll want to have a say on how their financial gift is used. If you want to provide direction regarding the use of funds after you make the gift, you could consider establishing a trust.

To create a trust, you could transfer assets to a trustee who will manage the assets on behalf of the ultimate recipients (beneficiaries). Through the trust agreement, you may specify timing and amount of distributions to beneficiaries, which may be particularly useful for spendthrift or incapacitated beneficiaries, who may not have the responsibility or capacity to manage funds themselves. Using a trust is more complex than making an outright gift and additional information is available in our report, "In Trusts We Trust".[9] You should consult with legal and tax advisors before implementing a trust. A trust may also help to protect the gifted amount from creditor or family law claims against gift recipients, as could taking back a promissory note that is payable on demand. Indeed a common strategy when parents want to help a child purchase a home but wish to protect those funds in case of marital breakdown is for the parents to structure the transfer of funds as a loan, secured by a non-interest bearing mortgage on the property. This mortgage can then be forgiven at some later date or even upon death, if desired.

Conclusion

As the song said, "There's so much that we need to share."[10] Consider whether sharing some of your wealth during your lifetime might make sense for you and consult with your tax, legal and financial advisors prior to making any gifts.

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9 The report titled "In Trusts We Trust" is available online at cibc.com/content/dam/personal_banking/advice_centre/protect-whats-important/in-trusts-we-trust-en.pdf.

10 Supertramp. *op. cit.*