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Beware How You Help Your Kids Financially

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A recent TD Canada Trust survey found that 10% of Canadians are considering the purchase of a condominium for their adult children. This is up from 5% just a year earlier and certainly reflects drastically increasing housing costs over the past decade.

Gerry and Joanne were more than happy to give their daughter a sizable down payment to help her and her new husband get into a home of their own. Unfortunately, like almost half of marriages, theirs ended in divorce. The ex-husband got half of the proceeds of the sale of the house, even though they were only married for three years.

Perhaps a better way of protecting what was really intended as part of their daughter's inheritance would have been to treat the down payment as a second mortgage instead of a gift. Gerry and Joanne might be concerned about what their daughter and her husband might think about them by having a second mortgage signed, but it does protect their hard-earned dollars and, more importantly, their daughter's best interest.

Just because there is a second mortgage in place doesn't mean that mom and dad have to collect payments. In fact, they can forgive the loan any time they want or make a provision in their wills to have it wiped out on their death. It doesn't even have to be registered on the property title.

This type of arrangement can be made for a common-law spouse or simple roommate arrangement, too. In fact, it might even be more important. In some provinces, there are laws in place that give an adult certain rights as if they were a spouse when living with another adult for a certain length of time. They could end up with half of something that was intended solely for the benefit of another person.

Harold and Claire were less concerned about gifting their children the down payments for their starter homes. They were more intent on having the kids move out so they could downsize their home in anticipation of retirement.

When Helen helped her son with the purchase of his home, she considered having her name on the title as well. Instead, to avoid potential capital gains problems later, they put title in her son's name only.

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