Giving Your Children an Early Inheritance: 3 Things to Consider

You can't take your wealth with you when it's all said and done... so why not watch your children enjoy their inheritance now, rather than later? Here are three things to think about before gifting money to your children to help them pay for things such as schooling, a house, dream vacations, or a business venture.

1. How much control of your gift do you want to have?

An Outright Gift: The common way to give an early inheritance is to write a cheque. However, the downside to making an outright gift is that you lose control of your money. Your children can do whatever they want with those funds. So, if your children are the type that like to buy magic beans or tend to fall for random emails from a Nigerian prince seeking a wire transfer... you might want to think twice before simply cutting a cheque.

Another thing to keep in mind is that gifting the inheritance outright also exposes your children to creditors or ex-spouses. As such, the funds could be subject to a family law claim.

Set Up a Trust: Assets are transferred into a trust and assets are held by trustees (usually the parents) for the benefit of the beneficiary. In the case of children under 18 years of age, you can
determine when they can access the funds for something they might need – until they come of age and can have full access to the inheritance.

You have control over the assets, because as the trustee, you make the decisions in terms of how the assets would be invested and how the assets would be distributed to the children. You may be able to split income with your children, depending on how the trust is set up.

You could take your need for management over the inheritance by setting up an incentive trust – which issues a certain dollar amount when your child achieves a milestone, such as graduation or getting married. Some parents also call for trust distributions that match the child’s income, so for every dollar the child earns, the parent will contribute the same amount in the trust.

Give a Loan: Offering a loan to your children sounds a little harsh, but in reality, it acts as tough love against certain creditors. For instance, if you want to help your child buy a property with your living inheritance, keep in mind that the house could become matrimonial property in the future. By loaning the asset and having a loan document in place, you could then protect the capital if worst comes to worst and your adult child experiences marriage issues…Because the loan would need to be paid back and your child would need to split the assets.

2. What are the tax consequences of your gift?

There are no restrictions on gifts in Canada, so parents don’t have limits on what they can give to children while still alive.

Furthermore, there are actually some financial advantages to giving it away while you are alive. For one thing, even though there is no inheritance tax in Canada, the estate does pay because it is faced with capital gains taxes on assets. At the time of death assets are considered sold and taxes owed on gains. Some provinces also charge probate fees of as much as 1.5% on an estate.

A second consideration is your own tax rate versus your child’s. If you are in the top marginal rate, you can give your kids the money once they hit 18 and the investment income could be taxed at a lower rate.

The third tax consideration is in regards to capital gains. If you give your kids cash now to invest it in stocks and bonds, there is no deemed disposition when you die because they own the assets.
3. Can you afford to give your kids an early inheritance?

It seems like an odd question for high net worth clients with a healthy nest egg. But there are things that could happen later on in retirement that you didn’t think about, such as sickness or emergencies.

As such, make sure your own future is secure before considering an early inheritance for your children. A knowledgeable financial advisor that is experienced in all aspects of estate planning can help you navigate tax issues and come up with the best strategy for transferring your assets – while still keeping your retirement plans on track.

Contact us anytime if you’d like to further explore options regarding early inheritances for your children.

Talk to us.

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