Giving While Living

Ask people whether they periodically give money to their children and grandchildren and the answer is often a quick yes. Parents or grandparents generally see such gifts as just helping out or fulfilling responsibilities. In fact, research reveals "the majority of Canadian parents with a child 18 years or older (76 per cent) say they'd give their kids a financial boost to help them move out, get married, or move in with a partner."[1] This finding prompts questions about how best to move from occasional gifts to the distribution of significant assets, now versus later. After all, the "do it now" approach can have a direct impact on your life as well as that of the recipients.

There are at least two positive outcomes of lifetime gifting. First, it can be highly rewarding, as you see the received gifts being used well and enjoyed. Second, insights gained from observing a child's management abilities may help you formulate an overall estate plan for future gifting. You may choose to structure gifts through trusts rather than transferring them outright. You might also choose a more active role now, helping beneficiaries to better prepare for the realities of inheritance that lie ahead.

With those advantages in mind, a critical starting point is solving the tension between how much you want to give and how much you need to retain to sustain your lifestyle. Gifting too much or gifting too soon may negatively affect your future ability to meet your own financial needs. On the other hand, giving too little may defeat your goals, whether you're motivated by the internal satisfaction of seeing the recipient benefit from the gift, or from a more external motivation to give something back.

Certainly, the more carefully you plan the more likely you can gift with confidence, and with little or no concern about future regrets. To establish an accurate picture of how, when and what shape your gift will take, we recommend considering factors such as:

- Your current net worth by asset class in terms of value and liquidity.
- Lifestyle requirements now, and as they may change over 10-year incremental intervals. Include housing needs, retirement plans, lifetime horizon, and cash flow projections anchored against the realities of portfolio risk, taxes and inflation.
- How different asset allocations affect long-term returns, as the results may tip your giving capacity.
- Contingency issues such as health risks that may derail plans.

We know from working with clients that such analysis can be clouded with altruistic emotions, which may cause you to overestimate what you can, or should give. While there's no magic formula that mixes all the variables, weighs the balance, and calculates a precise measure of your gifting capacity, many people successfully pass on wealth during their lifetimes and continue to grow their remaining wealth at the same time. You may also be surprised at the range of options that can help satisfy your goals and the realities that accompany giving while living.

Options at Work

Take for example, the Raymond family comprised of two parents and two adult children all working in the family business they took over from Mr. Raymond's father years ago.[2] Having reached their mid-fifties, the parents want to take life a little easier. With the help of their lawyer and accountant, the shares of the business are restructured to essentially pass on the company's future growth to the two adult children through an "estate freeze." This structure leaves the couple with an income stream and voting control of company shares. The children are able to

1. Jamie Golombek, "Most Canadian parents prefer to give their adult kids money than live with them: CIBC Poll," CIBC, July 27, 2017, http://cibc.mediaroom.com.
2. To protect the privacy of our clients, the names of any people are fictitious as are their characteristics.

assume a more active role and have a vested stake in growing the business, while their parents are still available to offer guidance and support.

In another case, Edward Smith has survived his wife and most of his extended family. As a child, he benefited from a scholarship program for young boys of needy families. The scholarship enabled him to enroll at a boarding school. Edward, now over 80, still needs the income from his assets, but wants to do something for boys in similar circumstances while he's alive. With the help of his wealth advisor, lawyer and the school, Edward establishes a charitable remainder trust. It means he continues to receive the income on his gift and an immediate tax receipt that reduces other taxable income. The money he saves on his income tax will allow him to cover tuition and boarding fees for one boy. When Edward dies, the school will receive the capital being held in the charitable remainder trust and more children will reap the benefits of Edward's generosity.

Making a Balanced Decision

If you're thinking of making a significant lifetime gift, we recommend drawing on professional guidance before reaching a decision. While determining how much to give and the best gifting structure for your situation may appear to be a daunting task, the right kind of support may help make it easier for you to enjoy the many benefits of lifetime gifting.

In our experience, people appreciate the potential to reduce taxes and simplify life by having fewer assets to manage. With an asset that's management and/or labour-intensive, such as a family vacation residence, you may not want to sell, but you also may not want the responsibilities associated with its operation and maintenance. Gifting the property now means it remains in the family while alleviating your ownership burden.

Alternatively, annual income taxes may be lowered if income producing assets are reduced in your portfolio. Fewer assets also mean lower probate taxes when your estate comes to be administered. In business situations, lifetime gifting may free up cash flow and facilitate logical succession planning.

Take the time to weigh such advantages with the realities of giving significant assets while living. For instance, once made, gifts are irrevocable and control of the asset passes to the new owner. When dealing with gifts with appreciated capital, the tax liability accelerates into the current tax year so you must be ready to ante up at tax time if there isn't an offsetting capital loss, exemption, orcharitable receipt. Apart from certain types of charitable gifts, such as the charitable remainder trust vehicle mentioned above, the income stream generated from income producing assets is lost once gifted.

Planning to Protect, Grow and Transfer Your Wealth

We know the answers to questions such as "how much can I afford to give and when?" don't come with guarantees. We believe a carefully reasoned plan should not only protect you from over-gifting, it should allow for continued growth of your wealth with the ultimate goal of having more to pass on to beneficiaries throughout your life and through your estate. Now's the time to begin talking about your giving while living plans, to ensure a win-win result.

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