



THE
RENAISSANCE
GROUP

MEMO TO: Professional Clients
cc: Tax Planning File

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File No.:

Corr. **W.P.**

Tax **PIT**

STF **Other**

Subject: Planning Opportunity – Assisting Beneficiaries with Mortgage Down Payment etc. Utilizing the Family Trust

Due to high housing prices in Greater Vancouver and other cities, it is becoming more common for some parents to decide on a “start-up mortgage helper” gift for their children.

If you are considering this idea for your children sometime in the next few years (or any other potential large one-time expenditure for the family), it may be worthwhile distributing an extra “non-cash” dividend to your children annually in order to create a “pipeline” owing to them from the Family Trust.

Building this “pipeline” over several years with smaller dividends rather than one large dividend in the year of the gift could minimize their marginal tax rates on this potential distribution.

Note the strategy below will create a liability from the Trust to the specific beneficiary for the unpaid amounts. This liability should be evidenced in the form of a demand promissory note, which means the beneficiary could call on this note. This may be a family matter to consider.

EXAMPLE FACTS:

- Beneficiaries include:
 - child 1, age 16;
 - child 2, age 18;
 - child 3, age 20
- Parent’s goal is to accumulate a mortgage helper for \$200,000 that they can potentially distribute for each child when the child is 25 to 30 years old

Assuming annual cash dividends for each child are normally about \$40,000 (for tuition, personal expenses, etc.), the potential tax savings from **additional** non-cash dividends can be summarized as follows:

Child	Child's current age	Expected age to distribute gift	Years to save for pipeline	Additional annual dividend needed	Tax cost of lump sum dividend in year of gift	Tax cost of total dividend pipeline	Tax savings of building pipeline
1	16	27	10	20,000	61,200	31,600	29,600
2	18	23	6	33,333	61,200	37,800	23,400
3	20	29	10	20,000	61,200	31,600	29,600
				73,333	183,600	101,000	\$ 82,600

Based on the above example, the overall tax savings from creating the dividend pipeline is approximately \$83,000 if the pipeline is properly planned in advance.

If you are considering assisting your children with their mortgage or any other larger one-time expenditure for any of the Trust beneficiaries in the next number of years, please call us to discuss the above strategy further.