

# Know tax rules for house down payment gifts

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With lots of inventory and low home prices, your gift of a down payment to your credit-worthy children can be a stepping stone to getting into a first or next house.

A nice thought at this time of year. (I'm speaking both of the holidays and the upcoming tax season.) Speaking of which, there are rules — like there's no tax deduction for giving a non-charitable gift. But your gift of up to \$13,000 can be given tax-free.

My husband and I used our parents' generous wedding gift as a down payment rather than spend it all on the wedding. And we're not the only couple boosted into home ownership by parents, according to blogger Amy Hoak.

She says about one-quarter of first-time home buyers get a down payment gift from relatives or friends (note to my friends: My birthday is coming up in February and nothing says you're my BFF like a down payment!).

"Many times a gift will allow a buyer to make a down payment without severely depleting their savings — a big plus in an uncertain economy," writes Hoak.

"Most lenders will require borrowers to have some money in the bank after closing. And some parents would rather their adult children keep saving for a rainy day than use all of their funds to make a down payment."

The rules for using down payment gifts differ depending on which lender you use and whether your loan is guaranteed by Fannie Mae, Freddie Mac, or FHA. Hoak outlines the rules for each in her blog.

If you're the one making the down payment gift, you won't have to pay federal income tax, nor will the recipient, as long as you give \$13,000 or less in 2011 or 2012. You can give up to \$13,000 per person without tax implication to any number of people in one year.

In addition, you and your spouse can each give separate gifts to your child. The IRS calls this gift splitting. For instance, if you're planning to give to your two children, you and your spouse can each give each child up to \$13,000 for a total of \$52,000 (\$13,000 x 4), says CPA Sue Medicus, owner of Liberty Tax Service in Catonsville, Md.

If you want to give more, you still may not owe taxes, but you have to inform the IRS of your gift using Form 709. Check with your tax adviser to see if the amount above \$13,000 counts against a lifetime exclusion that we all get to use to pass along assets via gifts and estates, Medicus says.

You can't deduct the

value of gifts you make (other than gifts that are deductible charitable contributions) or any federal gift resulting from making those gifts.

For more, IRS Publication 950 outlines the rules about gift and estate taxes. What do you think about making down payment gifts to children? Have you done it? Would it have helped you?

