



## IS THERE A SIMPLE WAY TO PROVIDE A BENEFIT FOR CHILDREN WITHOUT MAKING A TAXABLE GIFT?

Some individuals wish to provide a benefit to their children without making a taxable gift, particularly if they have used up all of their lifetime exemption from the Federal gift tax. For wealthy families, this wish frequently results from a desire to see children enjoy the fruits of their parents' financial success during the lives of the parents. Loans to the children memorialized with promissory notes are an attractive option in this situation, particularly in a low interest rate environment. A loan enables a parent to move a substantial amount to a child, and may require that the child only pay interest on the principal balance during the term of the loan with a balloon payment of principal at the end of the term. It is important for families to adhere to the terms of the promissory note in order to support the expectation that the loan will be repaid. This means that the child will have unlimited access to and control over the loaned amount, so that it is frequently perceived as an "advance" on an inheritance. The promissory note can be refinanced if the parent survives the term of the loan, and the loan may be distributed to the child as a portion of the child's inheritance at the death of the parent. From a tax efficiency standpoint, the loan operates as a partial freeze of the value of the parent's estate, because the loaned funds are likely to appreciate at a higher rate than the interest rate of the loan, but the real value of this simple technique is the parent's enjoyment in seeing the children's use of the loaned funds.