

ASK AN EXPERT

THE GIFT THAT KEEPS ON GIVING

BY W. RICK HARRIS, REIA

Rick Harris researched the question of whether money can be gifted for the purpose of investing in real estate.



With Christmas quickly approaching, it's the time of the year we begin to look for that ideal gift. What if I told you I have the perfect gift idea? This gift is one that just keeps on giving; a gift we can offer as a living legacy that can transcend generations and give a hand-up to future generations.

To explain, I will share with you the story of a friend of mine named Rachel. Rachel told me that her mother was planning to leave her an inheritance of \$70,000 cash. Since Rachel's mom is in great health, this money would not be handed down until perhaps well into the future.

Rachel is an investment real estate investor. But she had run out of her own money to use for down payments on new properties. Although she had several joint venture arrangements, finding more partners was proving difficult. I asked Rachel if she would consider asking her mother to gift her the \$70,000 now. That way, her mom would get to see how these funds over the years helped Rachel and her young family build a strong investment real estate portfolio. Rachel did ask, but her mom was hesitant to gift the money, thinking that the bank might have an issue with it.

Rachel had her two daughters, ages 11 and 13, help her clean her revenue properties when there was tenant turnover. (The girls actually thought their parents were in the cleaning business!) One day, Rachel's mom decided to help Rachel and the girls clean a tenant turnover. The girls asked whose house they were cleaning, and Rachel explained that the property they were cleaning belonged to her and their dad. Why did they own this house and the one they lived in? Rachel went on to explain that the tenants paid rent, and this rent covered the costs of the property. Plus, each month, there was a



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little money left over from the rent, which Rachel put into the bank. Rachel also explained to the girls the concepts of equity growth and principal paydown. Rachel told them that the equity growth and principal paydown were their legacy.

Upon hearing this, Rachel's mom realized that she had raised her daughter to be a smart and business-savvy woman who was building a business around helping her family now and in the future. At the end of the day, with the house cleaned for the arrival of new tenants, Rachel's mom took everyone out for supper and let Rachel know she was going to gift her the \$70,000. Rachel promised she would talk to her accountant and the bank, to make sure the gifting was done properly.

When she met with her accountant, Rachel asked him, “May monetary gifts be used to purchase real estate?” His answer was yes. He then told Rachel that each lending institution has a standard form to be used in such cases, stating that the money is a gift and does not need to be repaid.

Rachel contacted TD Canada Trust and was provided with a form called a Gift Letter, which is simple to fill out. Addressed to the bank manager, the letter confirms the amount being gifted; the person who

is in receipt of the gift; and the relationship between the giftor and giftee.

The form, which has a section for the address of the property being purchased, includes the line “No part of the gift is being provided by any Third Party having any interest (direct or indirect) in the sale of the subject property,” which the giftor must sign off on. The form also has a section called “Verification of the Existence of Gifted Funds.” The giftor has two options: he or she can take the form to the bank and have the funds verified, or attach copies of bank book pages or statements of investment, confirming the amount of gifted funds.

At the end of the day, Rachel's mom felt wonderful about her decision to gift her daughter the \$70,000 and is now spending more time with Rachel and her granddaughters, including helping them clean tenant turnovers. Thus, the gift turned out to give much more than just the money: it created a strong bond and a legacy for the family.

Rick Harris, an active real estate investor since 2002, has developed his purchasing strategies and processes specializing in vacation and recreational properties, single-family homes, and condo rentals.