Housing's latest GI Bill: generous in-laws

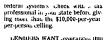
AP - A typical house today costs about \$95,000. With a 10 percent down payment and, say, \$3,000 in closing costs, buyers need at least \$12,500 cash up front - an amount out of the question for many couple. An estimated one-loutin of would be suffered to the suffered to the suffered couple cash for a down payment. That's where parents come in They can give money as a gift, provide to lean or share parents come in they can give money as a gift, provide to an or share parents come in the ownership in acchange for cash up front.

Gifts - The advantages of a gift are self-evident: Kids get the money (and a brighter balance sheet) free and clear. Parents benefit, too because cash transfers can save rente tax and administration expenses. The release of the suffered couples of the suffered coupl

e checks.

The rules get complicated when by give more than the \$10,000 per ar limit. In addition to annual tax you give instead and an annual tastree gifts, everyone can transfer tail of \$800,000 to others (and an unlimited amount to a spouse) via lifetime gifts or bequests without worrying about the federal gift and estate tax. Gifts beyond \$10,000 _year cat into that \$600,000 allowance.

The few states, including New York, North Carolina and Tennesseen the control of the swall of the sw



LENDERS WANT assurances that hENDERS WANT assurances that patential "gill" is just his tan an at disguised both because mortgage residius, thinks as based primarily on the north-color metods a secret agreement to report patents can turnow debt calculations on of winds, and hang young homeowners with outsized liabilities.

And gill as not kids must still come as with part of the money On conventional toams is precent down, paymen, arthurstly, must come from mayers, we recoursees Parents an only with the cess the company.

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* Louise inter- are a number of all of them involve each among the quickest eases and most substantial touts, parent ear make to a bild on my about each make to a bild on my about each make to a bild on my about each make to a bild on the parent ear make to a bild on the parent early to cost of parent early to the following the total early the early the total early the early the early the total early the early the

United Way

parents act as mortgage lenders for their offspring, they should conduct the transaction in a businessilke fashion. A mortgage roan from par-ents should include a legally record-ed line as kids can dedect the mort-gage-interest payments.

FHE INTEREST care should be ousningalike, no, because hair gain observed, below-market toans get tough freatment from the Internal Revenue Service. If parents shaips 2 percent interest on a home loan, the government will consider the difference between payments at that rate and payments on the same size loan at a minimum, government-set rate to be a glift Unless the loan as large me, such "glff" will likely be covered by the \$10,000-per-year giving rules.

But the arrangement can nave THE INTEREST rate should be

But the arrangement can have other tax consequences for the lend-er. The parents to whom the interest is imputed most pay tax on interest

income they never receive.

Your loan may avoid these hassies, though No interest is required on loans of less than \$10,000. For loans up to \$100,000, the IRS won't get movived as long as the borrower's invisational income is less than \$1,000. Apparently, the IRS wants to be sure the borrowers are using most of their own money before waiving interest requirements on loans over \$10,000.

Government-set rates can actually be a good deal for parents and kids. In April the long-term rate for a loan that calls for monthly compounding was \$4.2 percent - at least a percentage point below the marker rate for mortgages in most places.

Complex IRS rules apply for gift taxes, mortgage-interest deductions and income calculations on, such loans. When setting up the or any other type of mortgage loan with a family member, consider playing it safe van baving a lawyer prepare

and register your loan document, and get a tax accountant to set up the tax details.

the tax details.

With another type of loan called an equity-kicker arrangement, parents can get loan-interest income and a piece of the children's honevalve appreciation. Equity kickers work somewhat like convertible bonds, which offer regular interest payments and potential stock-price appreciation.

WIATEVER TYPE of loan you choose, you'll need to think about time limits. Parents can include a conventional time limit and amortization schedule with their loan. They can stipulate a balloon-type arrange ment, with a large principal payment due at the end of the term. Or they can make it a "demand" not secured by the nouse, with principal repayable on demand.

• Equity sharing So-calted equity-sharing arrangements com-

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bine an 'investor' owner who typi-cally provides the down payment, with an 'occupant' owner, who pays closing costs plus all the mortgage and household bills. The two eventu ally split profits on the home's ap-preciation. The down payment is re-turned to the investor owner when the home is sold.

There is an aspecial tax write-offs

the home is sold. There is an operal tax write-offs for the parent-investors during the life of their deal. Neither of source, are there any glit tax or imputed interest hassles. Should troubles develop and household bills or mortgage payments lapse, the parents art cechnically able to force a full mort gage repayment and thus sale of the house.

house.
If you are interested in an equity snaring arrangement, these, whether any firms in your area specialize in these transactions Local coal coal statu agents are likely to know of equity-sharing specialists. Otherwise, consult a real estate lawyer.

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