Gifting That Might Be Taking

The country and the world have been financially disrupted this year. There is a section of haves who have done exceptionally well considering the economic calamity. There are a section of have nots who have done exceptionally poorly.

This is nothing new. As economies shift, winners and losers are created all the time, though usually not so widely in such a short space of time.

Australia has remained prosperous for more than a quarter century, if you are judging based on recessions, but it hasn't happened without creating wealth divisions. While you would expect older generations to have a greater share of wealth, house prices have continued to outpace wage growth for some time, skewing the division further. The consolation for the youth? Cars, travel and consumer goods have all shrunk as a proportion of income. Some luck! They can console themselves with disposables!
The property ladder issue has led to some parents feeling the need to help the kids reach the first rung. What are the issues?

The rules around gifting are straightforward enough if you are accessing a government benefit, or your gifting actions will lead you to claim one. If you are receiving a pension, it's a maximum of $10k per financial year, with a max total of $30k over five years. Anything over that and it is treated as a deprived asset and you're still assessed to be in possession of it.

The psychology around gifting is not so straightforward. It's money. It's family. It's real people with various influences. They may behave differently than we expect or hope. As a recent article on child/parent drama highlighted with this tale of mother/daughter financial folly.

In 2009, they started looking for a small place for Ellie to buy and Maggie withdrew $50,000 – "what remained of my super" – to give to her to use as a deposit. Two years later, after selling her house in the country, Maggie gave her daughter a further $100,000, half the cost of the sale, to achieve a "granny-flat interest" in the unit Ellie had bought two years earlier with the gifted deposit money.

The $100k did not go to the unit, it went to the daughter upgrading to a bigger house with her new husband. Mother currently exists in purgatory. Now paying their full mortgage. Threatened with eviction by the son in law. No idea what comes next. A real joyful life at 69.

As with investing, monetary gifting prompts issues of risk and behaviour. From the giver's side:

Guilt: If the parent feels there were past inadequacies in the lifestyle, opportunities or time provided to their children, they may feel the need to make up for it.

Vanity: It's a competitive world, people feel good when their children do well. Even better when you can boast about their new house or their investment property etc. It doesn't sound as impressive if you staked it though.

Perception: The giver may feel the action is reinforcing something they feel about themselves: they are a giving person.

Assumption: The idea that the act will engender some sort of consideration or goodwill down the line.

None of these thoughts or feelings are good reasons for gifting. They are more emotion than logic. There should be an overriding reason: financial capacity. If you have the financial capacity to gift without a long-term concern, then you can justify it to yourself however you like.

If not? Set aside the emotion and consider the implications.

It's one thing to give someone $100k if you have $1.6 million in superannuation, own your house outright and live a relatively frugal existence. It's another thing if you're coming to some convoluted agreement to pull a large amount of small super balance or redraw on your mortgage with the plan to work longer to pay it off.

Economist Elroy Dimson once defined risk as “more things can happen than will happen.” If we take this definition and apply it to parents gifting large sums to adult children without the capacity, there’s a whole universe of potential disaster.

Understanding: Is it a gift or is it a loan or a stake? Definitions are important. So is paperwork. One party believing one thing and another believing something else can quickly take a relationship south.

Capacity to work: If you’re going to dedicate a few more years in the salt mines to earning back the gift given, you need to hope you can work long enough. Health can fail. Employment can disappear. That leaves a lack of retirement savings or debt in retirement.

Children’s relationships: Relationships can fail. Rough luck if you’ve gifted your son and daughter-in-law a deposit and they split. You may not get to claw your share back.

Longevity and frailty: Advanced years may require advanced care and increased medical requirements. Neither are cheap. Giving away money at the beginning of a retirement is fantastic if you know how long you will live. Retirements can be 25-30 years.

Reciprocity: Again, things change. If you’ve made a handshake agreement where your child returns some financial assistance when or if required, you may be in for a shock. They may have jumped on the hedonic treadmill and become comfortable with their circumstances. You might need a hand when they’ve tied their hands. It will be easier to tell you no rather than not pay school fees or take their family on a holiday.

There has been a shift to helping in the ‘here and now’, but potential gift givers need to accept that just because a trend is occurring it doesn’t mean they have to participate. Life can be longer than we expect and require more resources. If it is a gift, make sure that’s what it is and it’s well within the boundaries of long-term affordability. If it’s a loan, spend a few dollars and have it legally addressed.

Gifting should start early. With knowledge. The best gift a child can receive can be a good grounding in money and what wealth truly is. The importance of saving and understanding the most reliable strategies to build wealth. This starts much earlier than adulthood.