

2026-10-10

curr n?

WSJ Print Edition

It is perfectly legal for families to lend money to a relative for a down payment or a private mortgage.



KIERSTEN ESSENPREIS FOR WSJ



How Families Can Beat 7% Mortgage Rates, Lower Their Taxes

TAX REPORT |

LAURA SAUNDERS

Having relatives who trust each other opens the door to tax-efficient wealth sharing.

Happy is the family whose members—parents, grandparents and grown children—trust each other enough to cooperate on shared goals, especially financial ones. When that is truly the case, Uncle Sam's tax rules can help as well.

This matters especially now that mortgage rates are above 7%, and many families are looking for ways to help younger members. If the elders have resources and are confident younger ones can cooperate, a family loan could make homeownership possible while providing the elders with a useful income stream.

Other strategies can actually lower taxes, such as when funding 529 plans or Roth IRAs, or when someone inherits a traditional IRA with required withdrawals larger than they will need.

Here are three strategies useful for functional families.

1

Intrafamily loans

It is perfectly legal for families to lend money to a relative for a down payment or even a private mortgage.

But it is important not to cut corners, says Ryan McKeown, a CPA with Wealth Enhancement Group in Minnesota. If the loan is for a down payment, be honest with the mortgage provider and have a formal agreement. The lender owes tax on the interest payments received.

If the loan is for a private mortgage, both sides should have legal representation with a formal written agreement, including payment terms. The lender owes tax on the interest, and the borrower often can deduct it if he or she itemizes.

To avoid IRS trouble, the interest rate shouldn't be lower than the agency's Applicable Federal Rate at the time of the loan. Currently, that is about 5% for loans longer than nine years; about 4.5% for loans three to nine years; and about 4% for loans three years or less. Currently, traditional mortgage rates are generally above 7%. Note

In addition, the lender could use the \$19,000 annual gift-tax exemption (described below) to forgive some or all of the interest or principal annually. If both lenders and borrowers are married, that is up to \$76,000 a year. There is no tax for the borrower on such forgiveness, because it is from a gift.

If you're going this route, McKeown advises against having a fixed plan to forgive the debt. Instead, do it in one-off letters specifying the amount—and keep careful records. Otherwise, the IRS might try to treat the loan as a taxable gift.

Asset gifts

Powerful tax-saving moves for families often use gift-tax provisions. Under current law, anyone can give anyone else up to \$19,000 of assets annually, free of gift tax and gift-tax reporting. That means a married couple with three grandchildren could give them a total of \$114,000 in 2026.

The gifts can be cash or other assets, like stock. For noncash gifts, the cost basis—which is the starting point for measuring taxable gain after a sale—“carries over” to the recipient. So if someone buys \$1,000 of stock and gives it away when it is worth \$5,000, the recipient's cost basis is \$1,000. If the recipient later sells the shares for \$8,000, the taxable gain is \$7,000.

Here's an example showing how gifts could save a family taxes. Grandma is a widow of modest means, while her child and spouse have prospered. The couple has two children, and they want to contribute \$5,000 to a 529 collegesavings plan for each—but they need to sell stock to do it. Their tax rate on the sale would be 18.8%, and they would need to sell about \$11,000 of stock.

However, Grandma's federal tax rate on the stock sale is 0%. If the couple gives \$10,000 of shares to Grandma, she could sell them, pay no tax, and fund the grandchildren's 529 plans. This saves about \$1,000 of tax.

These moves are legal, and they could be used in other ways, such as to help a young person fund a Roth IRA.

But trust among family members is essential: Under the law, givers can't put conditions on a gift. Grandma could use her stock proceeds to take a cruise, but she makes 529 contributions instead.

Mark Sellner, a retired tax attorney and CPA living in Sarasota, Fla., uses this strategy. His children sell stock he gives them and fund 529 plans for his grandchildren.

The family's tax savings aren't huge, but he likes other benefits. The sales by his children don't boost his adjusted gross income, which in turn could raise his Medicare Irma premiums or his 3.8% surtax on net investment income.

Sellner doesn't worry about his children using the funds for another purpose.

“There can't be any strings attached to gifts. Of course, it is up to us to decide whether to make them in the future,” he says.

Two caveats: The “kiddie tax” applies to most children under age 24, and it is levied at the parents' rate on investment income above \$2,700 in 2026. Consider this before making gifts to a young person.

Investors who give away stock also forgo the step-up, an important provision that exempts assets held at death from capital-gains tax.

Sellner knows he's losing a step-up, but says, "The children could use a little more now. Why should they wait 20 years to get it?"

Disclaimers

A disclaimer is a highly useful strategy in which one heir renounces an inheritance in favor of another heir. Assuming family members cooperate, this can save taxes.

Here's one example. Dad died and had a large traditional IRA that he left to Mom. She has enough assets and income to cover her expenses, and she lives in a state with a stiff estate tax. The inherited IRA would put her estate over the threshold.

Also surviving are three youngadult children. If Mom disclaims all or part of Dad's IRA within nine months of his death, that amount could go directly to the children. They will have 10 years to empty the account, and the family as a whole will likely save estate and income taxes.

Disclaimers have many key details, especially regarding beneficiary documents. Although heirs have great freedom in choosing what assets to disclaim, the rules about who gets disclaimed property are rigid. It is best if the original owner names tiers of heirs so that if one disclaims, the next recipient is clear.

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.
