

The rise of the intrafamily loan

An intrafamily loan is a wealth planning strategy that has become increasingly more utilized in the current interest rate environment. These loans can be used for a variety of reasons, including helping a child purchase a home, investing in a business, or just providing additional liquidity.

The rate of these loans is lower than a traditional loan. The interest rate used is based on the Applicable Federal Rate (AFR) published monthly by the IRS.

These rates change monthly. To view the current rate, click [here](#). When implementing a loan of this nature, the AFR is the minimum rate that can be charged without incurring adverse income or gift transactions.

To illustrate how this may work, let's look at a loan for a home purchase. If a parent or grandparent lent their child/grandchild money for the purchase of a home, using this strategy, based on the current long-term AFR rate, you can easily calculate the monthly payment. These types of loans avoid fees, underwriting, and other hurdles that an individual may be subject to when obtaining financing. In addition, the annual loan payment, if forgiven, could be considered part of the couple's qualified annual gifting (\$17,000 per individual in 2023).¹

If it is determined that an intrafamily loan is appropriate, it is recommended that counsel is sought to draft proper documentation to formalize the loan. The loan documentation or promissory note should include the details of the loan, including the interest rate and any other terms of the loan (time period, collateral, etc).

Be aware that any portion of the loan that is forgiven, will be considered a gift. In which the lender can apply their lifetime exemption (\$12.92 million per individual in 2023).

It is recommended that you consult with counsel prior to engaging in this type of transaction to ensure it is appropriate given the individuals specific goals and objectives.

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Mesirow does not offer intra family loans.

1. <https://www.mesirow.com/sites/default/files/PDFs/Wealth/2022-Contribution-Limits-web.pdf>

Source: apps.irs.gov/app/piclist/list/federalRates.html

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