



First Quarter 2021

When Family and Friends Ask for Money



Thanks to the pandemic, many people are in a world of hurt and those who aren't may find themselves besieged with requests for financial help. But before you make loans to family and friends, or donations to non-profits with a heart-rending appeal, ask yourself if you are putting your own financial health in danger, especially if you're close to retirement.

According to the Federal Trade Commission, nearly 75% of loans made to family and friends are never repaid. In theory, you can write these loans off against your taxes, however, the IRS is wary of loans that charge little or no interest. Rather than viewing it as a bad debt, the IRS may require payment of a gift tax, making the experience even more costly. If you choose to loan money and the borrower defaults, you need to be able to prove that the money was a loan, not a gift, and document your attempts to collect. You also need to realize that lending money can be a short road to the end of a friendship if you expect it to be paid off, but your borrower feels other needs take priority.

What if you still want to help? Start by considering the individual's history. Beyond their current

plight, have they treated you as a friend or someone they value in the past or are they simply guilt-tripping you because you are more financially secure? If you were in need and asked them for a loan, would they try to help you?

Given that you want to help, but you believe there is a good chance they will not repay the loan, consider (1) making them a gift of the money, (2) offering them a chance to earn the funds through a job you need to have completed, or (3) directly paying an outstanding debt such as rent or car payments.

Regardless, before giving or loaning more than \$10,000 (or co-signing on any loan), talk to your financial advisor. Make certain you understand your own financial situation, if you can afford to help, and what your potential liability might be in the case of co-signing on a loan. You are not selfish or mean to turn down a request for funds. Sometimes money is not the problem, but a symptom of a larger problem. Instead, offer to help the individual find other solutions to their money worries. Do they need to put together a budget, apply for unemployment, sell assets to free up funds? If your offer to help them find other alternatives is refused, it may be a good indication of how repayment of a loan might be handled. If poor money management is a chronic problem, you don't need to be an enabler.

"Each one of us here today will at one time in our lives look upon a loved one who is in need and ask the same question: We are willing to help, Lord, but what, if anything, is needed? For it is true we can seldom help those closest to us. Either we don't know what part of ourselves to give or, more often than not, the part we have to give is not wanted. And so it is those we live with and should know who elude us. But we can still love them - we can love completely without complete understanding."
- Norman Maclean, A River Runs Through it and Other Stories



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