ESTATE PLANNING

Advisory Handbook 2025

Could your child use some financial support? This might be for education expenses, purchasing a home, or during a period of unemployment. Perhaps your child wants to fulfil a long-held dream of starting a business or taking over the family business? Your financial assistance could make this possible. Let this Advisory Handbook provide you with inspiration.

GIFTING

One of the most common and relatively straightforward ways to financially support your child is by making a monetary gift. This can be done in various ways. By making smart use of exemptions and tax-efficient gifting methods, you can increase the value of your gift—not just at the time of giving, but also in the future. Gifting is a cost-effective way to transfer accumulated wealth to the next generation. The financial support you provide now might also be an opportunity to consider your inheritance planning.

Depending on the size of your estate and the available exemptions, inheritance tax for your child can quickly range between 10% and 20%, and for a grandchild, it can even be between 18% and 36%. Plan this well in advance to save on inheritance tax for the benefit of your heirs.

Note:
For individuals with significant assets, a higher personal contribution for care under the Long-Term Care Act (AWBZ) applies. In 2024, single individuals must account for 4% of their assets above the threshold amount of €33,748 as additional income for calculating the personal contribution. For partners, the threshold is doubled to €67,496. The reference date for this calculation is 1 January 2023.

TAX-FREE GIFTS

As a parent, you can gift your child a certain amount each year without paying tax on it. For 2025, this amount is €6,713. If you are gifting to a child aged between 18 and 40 years (or whose partner is between 18 and 40 years old), this exemption can be increased to €32,195 once.

For gifts intended for an expensive study or education, the exemption can even be increased to €67,064 on a one-time basis.

Note!
On 13 December 2024, State Secretary Van Oostenbruggen sent the House of Representatives an evaluation report regarding the one-off increased gift exemption and the one-off increased gift exemption for expensive studies. The evaluation concluded that there is no necessity for either of these increased exemptions. The government’s response to this report is expected in the spring of 2025. Be aware that the government may announce the abolition, reduction, or reform of these exemptions.

Important!
The gift exemption for an owner-occupied home has been completely abolished from 2024.

PAPER GIFT (NOTARIAL DEBT ACKNOWLEDGEMENT)

Would you like to make a gift but are not in a position to transfer the entire amount in cash immediately? You can opt for a 'notarial debt acknowledgement out of generosity', also known as a paper gift. This means you acknowledge owing a sum to your child, which only becomes payable after your death.

This allows you to retain access to the (gifted) assets and liquidity while still making efficient use of the gift tax exemptions. Additionally, you are free to make repayments on this debt over time, providing your child with financial support. To ensure this method also results in inheritance tax savings, you must actually pay your child 6% interest annually. Through interest and repayments, your child receives financial support.

Note!

Both the donor and the recipient must report the paper gift in Box 3 of the income tax return. Under the Box 3 system in 2025, a difference arises between the taxability of the receivable and the deductibility of the debt. A higher notional percentage (5.88% in 2025) is applied to the receivable owed to your child than the percentage at which the debt you owe to your child is deductible. The exact percentage for the debt has not yet been determined but is expected to be around 2.62%. This means a difference of 3.26%.

Tip!

If you wish to make a paper gift to your child for several consecutive years, you can arrange this all at once with the notary. Make sure you are well informed about the terms and the associated advantages and disadvantages.

CONDITIONAL GIFTS

There is a risk that a gift may inadvertently end up with your (grand)child's in-laws through the marital property regime or a cohabitation agreement. You can prevent this by including an exclusion clause with the gift, ensuring the gift remains the property of your (grand)child.

Additionally, gifting assets to your child may put a strain on your own financial capacity at some point. If you want to give without becoming financially dependent on your child, you can make a gift under the condition that it can be revoked by you.

Note!

If your child married after 1 January 2018, your gift is no longer automatically included in the marital community. However, your child and their partner can specify in their prenuptial agreement that gifts are part of the community. In such cases, an exclusion clause remains relevant.

FAMILY BUSINESS SUCCESSION

Do you want to transfer your business, in whole or in part, to your child? Using the Business Succession Facility (BOF) in the Inheritance and Gift Tax Act, you can transfer business assets or your substantial interest shares tax-efficiently to your children. The BOF only applies to active businesses; investment activities are almost entirely excluded.

Consider your business succession carefully and seek appropriate advice. The BOF exemption has been amended as of 1 January 2025. From that date, a 100% exemption applies to business assets up to €1,500,000. For any amount above this threshold, 75% is exempted. The remaining gift tax can be deferred for ten years, subject to interest. The scheme has conditions regarding the holding period for you as the donor and the continuation of the business by the recipient.

FAMILY LOAN

You can also lend money to your children. Given the difficulty of obtaining financing from a bank, even for your children, a family loan can be an attractive option, especially in a low-interest environment. However, ensure that you establish clear and formal agreements regarding the loan terms, such as interest, duration, repayment, use of funds, demandability, termination conditions, and any security. This provides financial and legal clarity for both you and your child, avoiding unnecessary tax issues.

Note!
Under the Box 3 system in 2025, a difference arises in taxability. A high notional percentage (5.88% in 2025) is applied to the receivable you hold against your child.

If the loan to your child qualifies as an owner-occupied home loan that meets the tax criteria, the interest is deductible at the actual interest rate for your child.

OWNER-OCCUPIED HOME LOAN

You can lend money to your child for the purchase, renovation, or maintenance of an owner-occupied home through a notarial or private agreement. In return, you receive interest payments from your child. For you, this (commercial) loan is part of your assets in Box 3. The tax authorities now calculate the tax in Box 3 based on the actual assets you possess, using notional returns that are close to actual returns for savings or investments. For savings, this rate is significantly lower than for investments. For investments and other assets, such as a loan you have provided to your child, the tax authorities assume a notional return of 5.88% for 2025.

Note!
Since 1 January 2013, new rules apply to family owner-occupied home loans regarding mortgage interest deduction. Specifically, the loan must be fully and at least annuitively repaid within thirty years. To secure the interest deduction for a private loan, your child must inform the Tax Authority of the owner-occupied home loan. This involves providing the loan details annually in the income tax return, whether it is a new loan or a change to an existing owner-occupied home loan.

Important!
It is advisable to establish a security right for the loan. This is not only for repayment but also to substantiate its commercial nature for tax purposes. To establish a mortgage, you must go to a notary.

LOAN AND GIFT THROUGH CIRCULATING FUNDS

You can provide your child with additional financial support by complementing the owner-occupied home loan with circulating funds. In the same year your child pays interest to you, you can gift an amount within the annual gift exemption (2025: €6,713).
Your child benefits from the mortgage interest deduction for the owner-occupied home loan and from the tax-free gift, while you can return (part of) the interest tax-free. However, the gift and interest payment must be kept separate and must not be offset against each other, as this would negate the tax benefit.

GUARANTEE ARRANGEMENT

If your child cannot obtain a loan (or an additional loan) from a bank independently, you can act as a guarantor. This can apply to the entire loan or just a part of it, providing the bank with additional security. When you guarantee a mortgage loan, your child retains the right to mortgage interest deduction.

RISK-BEARING PARTICIPATION

Finally, one last tip: If your child is planning to start their own business, a loan might seem like the most obvious option. However, a risk-bearing participation by you as a financier in your child's start-up may be a mutually beneficial arrangement. There are numerous ways to structure this. Feel free to consult us for further guidance.

CONTACT

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