

**INTRA-FAMILY LOANS:
ADVENTURES IN FORGIVENESS AND FORGETFULNESS**

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Love is an act of endless forgiveness, a tender look which becomes a habit.
Peter Ustinov

Introduction

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Assuming Aggregate Gift Loans Between Lender & Borrower Exceed \$10,000,
 (or, if loans <\$10,000, that proceeds are applied to the purchase or carrying of income producing assets):

**Avoiding Below Market Loan Status
 For Gift Loan Under 7872**

Tax/Type	Demand	Term
Gift	Use Blended Rate or AFR for January or July	Use Appropriate AFR for term and compounding
Income	Use Blended Rate or AFR for January or July	Use Appropriate AFR for term and compounding ¹

Consequences of Below Market Gift Loan Status

Tax/Type	Demand	Term
Gift	Deemed Gift on December 31 ² in Amount of "Forgone Interest" ³	Incurred on date of loan in amount equal to the excess of the principal amount over the present value of all required payments.
Income	Deemed Income on December 31 to lender in amount of forgone interest ⁴ ; deduction to borrower in amount of forgone interest	Deemed Income on December 31 to lender in amount of forgone interest ⁵ ; deduction to borrower in amount of forgone interest

¹ If loan is made in connection with a sale or exchange, Int.Rev. Code §§ 1274 or 483(e) may provide an opening for a lower safe-harbor interest rate.

² Or, if loan paid off, the day the loan is repaid.

³ Forgone Interest = the excess of 1) the amount of interest that would have been payable in that year if interest had accrued at the AFR, over 2) any interest actually payable on the loan, allocable to that year. Int.Rev. Code § 7872(e)(2)(A)-(B)

⁴ Limited to borrower's direct investment income if all loans between borrower and lender aggregate <\$100,000.

⁵ Id.