

Should you buy a property for your child's stay at university?

By Tim Hardy, Shipleys Chartered Accountants

With Further Education studies now complete, many families' next big adventure is their child going to university. The level of debt university students are accumulating is prompting some parents to try and ease the burden. Some also see an opportunity to get their child on the property ladder. But what are some of the tax implications when buying a property for your child's stay at university?

Purchasing the property – Stamp Duty and Inheritance Tax considerations

The level of stamp duty on the purchase depends on who purchases and owns it. If the parents own or co-own the property with their child, and they already have a property, this second property prompts an extra 3% on top of the normal stamp duty rate - and for the total purchase price.

If, however, the child is gifted the money to make the property purchase and is the sole owner, then normal stamp duty rates apply. Gifting the money for the purchase or a deposit is also exempt from Inheritance Tax (IHT), as long as the person gifting doesn't die within 7 years. Another IHT-friendly approach is if the child gets a mortgage (probably with parental guarantees) and is then paid the mortgage payments out of the parent's surplus income.

Rental income

There are other tax breaks if the property is owned by the child, they live in it and they rent a room out to another student. Here, subject to qualifying criteria, they could

claim £7,500 under the Rent A Room Relief Scheme and £11,500 tax free income from their 2017/18 personal allowance.

Selling the property – Capital Gains Tax (CGT)

When it comes to selling the property, if it has increased in value then gains can incur Capital Gains Tax. If the property is owned by the child, and it's their main residence, the gain could be tax free under the Principal Private Residence Exemption. If it is owned by the parents or co-owned with them, the current CGT rate is 18% or 28% depending on your tax rate band.

Careful considerations

If you want to purchase a property for your child's university stay there are pros and cons from a tax perspective. These stem from how you purchase and allocate ownership of the property. A family's individual circumstances should also be carefully considered as this is a sizeable investment on the parents' part.

If you would like to discuss tax planning in relation to your family's finances, please do contact our friendly team at Shipleys LLP in Godalming.

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