

Tax implications of helping your child buy their first home

By Tim Hardy, Shipleys Chartered Accountants

Current house prices mean many parents step in to help their child onto the property ladder. Here are some popular routes people take and their tax implications.

Giving money towards purchase

There is no limit to how much money you can give your child and there are no Capital Gains Tax (CGT) implications. If you survive 7 years after the gift there is no Inheritance Tax (IHT) to pay either. If you do pass away within 7 years, all or some of the gift may be charged to IHT at 40%.

If you are planning gifting money over the long term, consider utilising your Regular Gifts Out of Excess Income rights. Here you can give your child regular (ideally quarterly or more) contributions to put into a savings pot (such as a Help To Buy ISA). There are no IHT liabilities providing you are able to demonstrate the money is from your excess income.

Alternatively, you could loan your child the money for the purchase. They can then utilise the first time buyer Stamp Duty Land Tax (SDLT) rates and there are no CGT implications. Done correctly, the loan also doesn't diminish your estate's value for IHT purposes.

Buy property and charge your child rent

This option can be costly. Assuming this is not your first property purchase, you will not benefit from current preferential Stamp Duty Land Tax (SDLT) rates for first time buyers (currently 0% for the first

£300,000 if the property value is under £500k) and you will be subject to an additional 3% stamp duty on a second property. You will also be taxed on any rental profit and, on sale, you will incur CGT (at 18% or 28%) on any profit. The property will also be included in your estate for IHT.

Co-own property with your child

With co-owning, neither your half nor your child's half of the purchase will benefit from the first time buyers' SDLT rates. Again when it comes to selling, your half will incur CGT. The value will also be included in your estate for IHT.

The route you choose depends on your personal finances and your relationship with your child. Ensure arrangements are documented in your Wills and do seek professional advice. Don't create an unnecessary financial burden for yourself.

For more advice about tax matters affecting you and your family please contact me and our friendly team at Shipleys LLP in Godalming.

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