

Buying a property for your children

In recent years it has become even more popular for parents to buy property for their children, perhaps as an alternative to renting university accommodation or just to help them buy their first property amid rising prices.

So, if you're thinking of helping your child onto the property ladder, what sort of issues should you be considering?

The main question is likely to be whether you should own the house yourself or put it into your child's name. You may want to own the house yourself if you intend to keep the proceeds when it is eventually sold or perhaps if your child is not very financially responsible.

However for tax purposes it will often be better if the child is the owner. If you give a house to your son or daughter then, for the purposes of inheritance tax (IHT), the value will drop out of your estate after seven years. Inheritance tax is charged at 40% on the value of your estate over £312,000 so a gift of a property to a child could result in big tax savings for the beneficiaries of your estate.

If you make a profit on the house the gain is liable for Capital Gains Tax (CGT) at 18%. However if your child owns the house and it is his or her main residence then any gains arising could be tax-free.

If the house is let then Income Tax is charged on the rents after expenses.



"Go. Enjoy. It's all yours. Especially the washing machine!"

Your children may pay Income Tax at a lower rate than you (they may not pay it at all if they are students) so it might make sense for any rental income arising to be taxed on them, as the owners, and not on you.

There can be complications if you buy a house for your child and subsequently live there yourself. This can negate the IHT planning and may even give rise to an income tax charge. This area is complex and advice should be sought if it applies.

Despite the tax advantages you may not want to give a house to your child outright. In these circumstances it might be

appropriate to consider using a trust. Putting a house in trust for your children enables you to keep control of the asset whilst still allowing your children to benefit from it and it should help to preserve some of the IHT and CGT advantages. You can include all of your children as beneficiaries so that the house (and the proceeds if it is sold) is available to all of them without them having to own it jointly between them.

Critchleys can advise further on all matters relating to property, tax and trusts. For further details please contact Lucy Lloyd on 01865 261100 or email llloyd@critchleys.co.uk