

Helping Children to Buy their First Home

Parents like to help their children take their first steps towards property ownership. Some of them will make a financial contribution to the purchase.

There are different ways of doing this:-

1. Gift.
 2. Loan – Interest Free.
 3. Loan – Investment.
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1. If parents chose to make a gift they need to remember that, fairly obviously, they will not be able to get the money back later. This may be a problem if, for example, they need it for unexpected contingencies themselves such as nursing home or long term care fees. It can also be difficult if the son or daughter enters into a relationship which breaks down: in this case the gifted funds may fall to be divided between the separating parties and the parents will not have given the long term help to their child, which they had planned unless there is an enforceable agreement to the contrary.

The tax position should also be checked. If the donor dies within 7 years of making the gift, then Inheritance Tax may be payable.

- 2/3. If parents chose to give a loan, whether interest free or as an investment, then the terms should be recorded in writing by way of Declaration of Trust or Legal Charge.

If a Declaration of Trust is chosen, then the owner of the property (the child) declares that although he or she is the legal owner, the beneficial interest is shared between him or herself and any parent contributor.

If a Legal Charge is chosen then this is effectively a mortgage in favour of the contributing parent and the parent will have all of the rights and remedies which go with this, including the right to force a sale to recover what has been lent.

The tax most relevant in this scenario is Capital Gains Tax.

Whichever route is chosen, Gift, interest free loan or investment loan, any mortgage lender of the son or daughter needs to be informed in case the contribution from the parent affects the mortgage lender's decision to lend. Contributions from third parties are often not an issue but failure to disclose them can be.

For further information, please feel free to contact our office:

Alison Fielden & Co, The Gatehouse, Dollar Street, Cirencester, Gloucestershire, GL7 2AN. Tel: (01285) 653261. Email: alison@alisonfielden.co.uk