Answer by **Rosamond McDowell, Private Client Partner at Payne Hicks Beach** first published in Financial Times online on 22 August 2018 and reproduced with kind permission
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Can we buy our daughter a house without paying stamp duty?

We don’t want her to waste money renting a flat in London

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Lucy Warwick-Ching 4 HOURS AGO

My daughter has just graduated from university and is about to start a job in the City. She would like to move to London but my wife and I are sceptical about her wasting her savings on rent. We would be much happier to help her on to the property ladder. We have sufficient funds but are concerned about tax exposure. We understand there are several options. Which is best to acquire a property in a tax-efficient way?

Rosamond McDowell, partner at Payne Hicks Beach, says there are three taxes to consider, and four main ways in which your daughter’s purchase might be structured. First, she can buy a property herself using cash given to her. Second, she can buy it with a loan from you. The third option is for you to buy it outright or with a joint mortgage and finally the property could be bought by or with a loan from trustees.

There are several tax considerations.; a gift of cash to help your daughter buy a property is a very effective way of reducing your estate for inheritance tax (IHT). However, if you die within seven years of the gift, it will come back into account, and your daughter may need to pay an IHT charge.

The amount of the charge will depend on any other gifts you have made within the seven years preceding your death, and whether your IHT nil-rate band (currently £325,000) was exhausted. If you buy the property or lend the money to your daughter, the value of the property or the loan will remain in your estate which will mean more IHT will be paid (at 40 percent) on your death.

Then there is stamp duty land tax (SDLT). As a first-time buyer, your daughter is eligible for lower SDLT rates on purchasing a property for under £500,000; the first £300,000 is exempt.

Rosamond McDowell, partner at Payne Hicks Beach

If you buy the property for her, or with a joint mortgage, not only would the lower rate not apply, but you would be subject to the 3 per cent SDLT surcharge on second homes. It may be possible for you to guarantee your daughter’s mortgage without triggering this liability.

If your daughter buys her property personally, she may be eligible for relief from capital gains tax when she sells it, provided she has occupied it as her main residence. But if you were to buy a property for your daughter, any gain will be subject to CGT on a later sale, with a surcharge at 8 per cent to normal CGT rates.

The most tax efficient structure would be a purchase by your daughter with a cash gift. If you are concerned about controlling the funds, you may prefer to set up a trust for your daughter's benefit, with the trustees buying her home, or lending money to your daughter to help her to buy the property. Provided you survive the seven years, the funds will not form part of your estate for IHT. Trusts are subject to IHT on creation and every 10 years, but as long as the value is less than your IHT nil-rate band, there should be no charge. For CGT and SDLT, this option is similar to a direct purchase by your daughter.

Louise Jones, associate at Collyer Bristow, agrees. She says the introduction of higher rates of SDLT on additional properties means that higher rates apply where one (or more) of the purchasers also owns another property. As parents usually own at least one property of their own, this means that the higher rate of SDLT is triggered on any subsequent property purchase, so opting for joint ownership with your daughter would not be financially attractive.

If the property is purchased by your daughter alone, as she intends to occupy the property as a main residence, she will qualify for the new SDLT relief for first-time buyers. To fund the purchase, a gift of cash or a loan could be made to your daughter.

Certainly, a gift of cash is a good option from an inheritance tax perspective, as parents may reduce their personal estates by passing cash to the next generation, so ultimately there will be less IHT to pay upon their own deaths.

Other financing options include family springboard mortgages (which many banks are currently offering) which allow a family member to provide the 10 per cent required for the deposit which is safely stored in a segregated account. If all mortgage payments are made on time for three years, the deposit monies are returned, together with interest.

If liquidity is an issue, you as parents could borrow against the family home to help fund the purchase.

As your daughter will be occupying the property as her main residence, principal private residence relief will apply on a future sale of the property so there will be no capital gains tax to pay. This will help her to move up the property ladder in future.

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