Guiding loved ones onto the property ladder: financial and tax implications for HNWIs

Families are increasingly putting their wealth to work to get younger generations onto the property ladder, and often under shared ownership. There are tax and other implications which need to be carefully weighed however, explains Paul Welch, CEO of largemortgageloans.com.

Today's challenging property market has made the dream of homeownership feel like an uphill battle for many. With first-time homebuyers in the UK averaging 33 years old and the necessary deposit standing at a staggering £61,000, it's no surprise that many High Net Worth individuals (HNWIs) find themselves contemplating financial assistance for family members. Yet, such a significant decision necessitates a clear understanding of its financial and tax implications.

A look at joint mortgages: shared ownership made possible

A joint mortgage could be a practical solution for parents or grandparents eager to help their children or grandchildren step onto the property ladder. Joint mortgages enable two or more individuals to collectively purchase property, which can be a viable route for parents and their adult children. However, each party involved must meet the lender's criteria: stable incomes, a favourable credit history, and a proven ability to meet mortgage payments are typically necessary.

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Due the complexity of HNWIs' finances, it may be necessary to seek a mortgage from a specialist lender, building society or private bank which are more likely to explore a greater variety of options. A traditional high street lender will likely lend according to set criteria which can be tricky for HNWIs. If you are a wealthy individual who is self-employed, you have a number of income streams, or you're asset rich but cash poor, then don't be surprised if you encounter difficulties with securing a mortgage from a high street lender. Always speak to a specialist independent mortgage broker who will be able to do a full fact find of your situation and work with you to find exactly the right mortgage from the exactly the right lender.

What to consider before committing: The potential pitfalls of joint mortgages

A joint mortgage is not a decision to be taken lightly. With the typical mortgage term extending over 25 years, it's a long-term commitment that requires thorough consideration and planning. Discussing potential changes in circumstances is key. For instance, what would happen if one party wanted to sell their stake? What if their financial situation changed? Establishing a robust legal agreement that outlines each party's responsibilities and rights is crucial. This document should cover various potential scenarios, ensuring both parties are protected.

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The tax implications: Navigating SDLT and IHT

Entering into a joint mortgage with a loved one has potential tax implications, particularly in regard to Stamp Duty Land Tax (SDLT) and Inheritance Tax (IHT).

When it comes to SDLT, the tax implications hinge on whether you become a joint owner of the property. If you contribute financially without becoming a joint owner, the other party might qualify for first-time buyer's relief. This relief could either reduce the SDLT rate or exempt it altogether, depending on the property's purchase price.

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Conversely, if you decide to become a joint owner, and you already own property, the situation changes. The property purchase could attract higher SDLT rates for additional properties—an extra 3% on top of the standard rates. As a consequence, your loved one would not qualify for first-time buyer's relief.

Helping a loved one buy a property can also have IHT implications. Gifting a large sum of money for the property purchase, rather that taking on a joint mortgage, can be an effective way to pass on wealth and reduce your IHT liability, as gifts made more than seven years before your death are generally exempt from IHT. However, there's a catch. If you pass away within seven years of making the gift, the money could be subject to IHT.

Top Tip

As a father to young adults, I understand only too well how parents (and grandparents) feel like they really have no choice but to step in to help the younger generations become homeowners. We get plenty of enquiries on just this topic, with individuals often considering all manner of wealth restructuring to make it happen.
As our expert contributor emphasises however, there are some really serious tax implications to weigh up before making such a move – not to mention the potential emotional fallout should things go wrong. Having an objective third-party who is also a tax expert to discuss things with is therefore invaluable. To start the process of meeting one fast and free, simply take our short wealth manager matching questionnaire (http://managersearch.findawealthmanager.com/).

Lee Goggin
Co-Founder

Delving into Capital Gains Tax (CGT)

In addition to SDLT and IHT, Capital Gains Tax (CGT) should also be on your radar. Should you opt for joint ownership and decide to sell the property later, you might face CGT on any profit made from the sale.

However, it's not all bad news. If the property is your loved one's main residence, they might qualify for Private Residence Relief. This relief can substantially reduce or entirely eliminate their CGT liability.

Exploring other options: The role of guarantor mortgages

If the tax implications of joint mortgages seem daunting, there are alternative ways to assist loved ones in purchasing a home. For instance, guarantor mortgages can be a compelling option.

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With a guarantor mortgage, you commit to covering the mortgage payments if your loved one defaults. This approach can be particularly beneficial for first-time homebuyers, young people, or those with lower income or credit history. Practically, it is more straightforward and might suit your situation better if your loved one is confident that they can cover the monthly mortgage payments (on the whole).

Conclusion: A careful approach to shared homeownership

Embarking on a shared homeownership journey with a loved one can provide them with the financial leg-up they need in today's challenging property market. Yet, it's crucial to weigh these benefits against potential tax implications, namely SDLT, IHT, and CGT.

Before making such a significant decision, consulting with a specialist mortgage broker or tax professional is highly recommended. They can help you navigate this complex landscape and understand the nuances of your specific situation.

> *By understanding the tax implications and incorporating professional advice, you can confidently assist your loved one on their path to homeownership, all while ensuring your financial future remains secure*

By understanding the tax implications and incorporating professional advice, you can confidently assist your loved one on their path to homeownership, all while ensuring your financial future remains secure. Remember, knowledge is power; with the right information at your fingertips, you're well-equipped to make an informed decision.

Important information

The investment strategy and financial planning explanations of this piece are for informational purposes only, may represent only one view, and are not intended in any way as financial or investment advice. Any comment on specific securities should not be interpreted as investment research or advice, solicitation or recommendations to buy or sell a particular security.

We always advise consultation with a professional before making any investment and financial planning decisions.

Always remember that investing involves risk and the value of investments may fall as well as rise. Past performance should not be seen as a guarantee of future returns.

Posted by Paul Welch

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Paul Welch, CEO and founder of Largemortgageloans.com (LML), is a Spear's 500 recommended adviser. He has over 25 years' experience of advising wealthy individuals and their families.