



# Guide to Gifting

How the Bank of Mum and Dad, and wider Bank of Family, can maximise the financial support they offer



Families can help their adult children with more than just house deposits. Personal finance journalist **Katie Binns** talks through ways of supporting your loved ones and explains how inheritance tax works.





# If you're looking to help your children get on the property ladder, you're not alone.



Research from Legal & General, carried out in the first half of 2024, shows that four in ten recent buyers under the age of 55 had used financial support from their loved ones to buy their property.

While contributing to a house deposit is often the priority in parents' minds, the Bank of Mum and Dad also helps with many other costs like weddings, childcare and even everyday bills.

And it's not just parents who provide this support.

With the cost of living still rising, if you're part of the Bank of Family now is a good time to look at your own gifting and make sure any support you're offering is both effective and affordable. Fortunately there are plenty of ways you can make practical, helpful gifts – and they don't have to be financial ones.



# We'll cover:



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| <b>1. Gift ideas with impact</b>  | <b>&gt;</b> |
| <b>2. Helping loved ones get on the property ladder with equity release</b> | <b>&gt;</b> |
| <b>3. Gifting your property versus intergenerational home ownership</b>     | <b>&gt;</b> |
| <b>4. Understanding inheritance tax (IHT)</b>                               | <b>&gt;</b> |
| <b>5. How IHT applies to four gifting examples</b>                          | <b>&gt;</b> |
| <b>6. Non-financial ways of helping your loved ones</b>                     | <b>&gt;</b> |

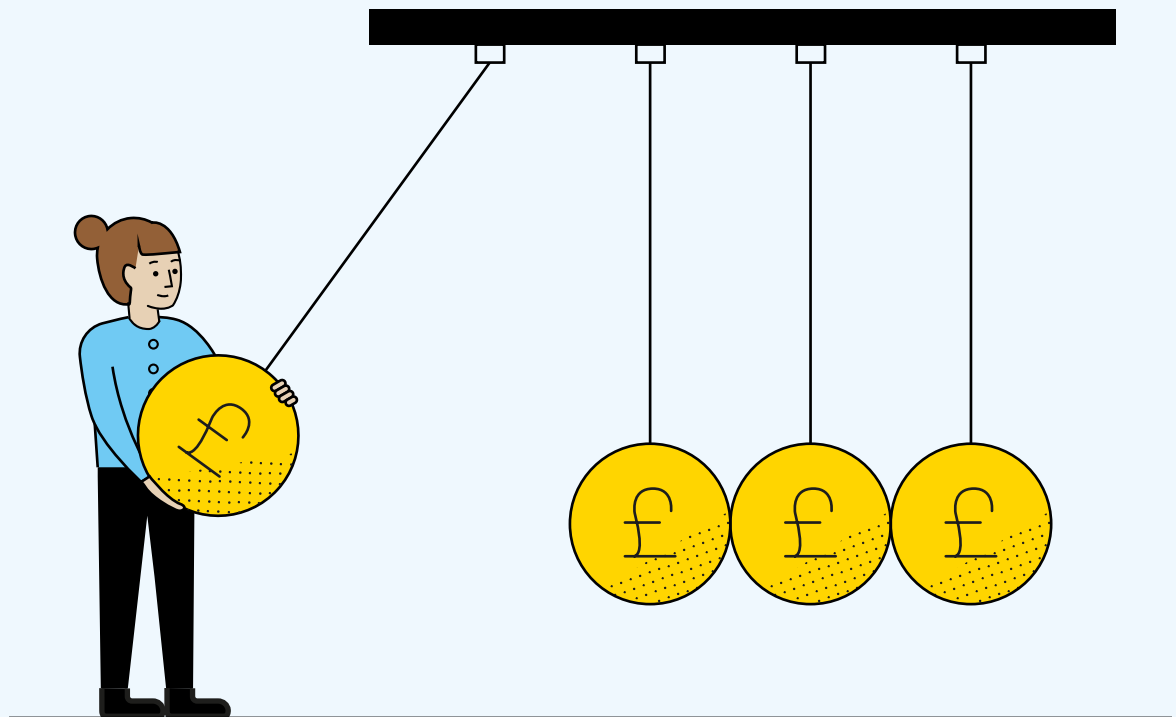
We're starting with gifting and property ladder ideas so you can see how IHT can affect different kinds of giving. Once you've seen it in action and have some context for it, we'll take a deep dive into how it actually works. Then we'll finish with some non-financial giving ideas.

While we'll go into a lot of useful detail, consider this guide just a starting point. It's always a good idea to get independent financial advice, do your own research and give yourself some breathing space before making final decisions.

And remember, while it's human instinct to want to pass on as much as you can to your loved ones, it's important not to give more than you can afford. Think about your financial security too and make sure that you've worked through any future costs you could face. These could include anything from maintaining your house or car to covering care costs for you or a partner.



# 1. Gift ideas with impact



The cost of living crisis is driving a lot of belt tightening. Many people are shunning saving and putting long-planned dreams on hold. Giving financial support to loved ones has also got harder. But if you're in a position to do so, a gift to a family member can be an opportunity to make up a shortfall and boost their future wealth.

We've pulled together some ideas for doing that. Before we share them, we need to make an important point. When you're giving gifts you should always be IHT aware:

- If you die within seven years of giving a financial gift it could be liable for IHT, form part of your estate or both. So make sure you keep a note of any such gift to help whoever ends up dealing with your estate.
- As a giver you have annual IHT gift allowances – financial gifts can count towards them, so it's important to bear them in mind too.

We explain more about both points in our "Understanding Inheritance Tax" section below.





## Contribute to a pension for a loved one

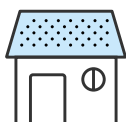
You can contribute into a **personal pension** for a loved one and they will benefit from a basic tax relief on the contribution. For example, if you make a contribution of £2,880 then with tax relief of £720 added, they get a gross contribution of £3,600.

## Contribute to a mortgage

You can use a lump sum, your income or both to boost the amount that your child or grandchild can borrow to get on the property ladder.

Multi-party mortgages, also known by the less exciting name of “joint-borrower sole-proprietor” mortgages, let multiple people be part of a single mortgage application.

For example, a parent can be named on the mortgage contract but not the property deeds. That means they aren’t liable for any stamp duty or capital gains tax and their child can still receive the first-time buyer stamp duty exemption. A number of high street banks and building societies offer this kind of arrangement.



Legal & General is a stakeholder in a company called Gen H which allows family members to act as deposit and income boosters – find out more at [Gen H](#).



Chae and Cem did it:  
“We got our £465,000 mortgage thanks to Chae’s parents being deposit and income boosters.”

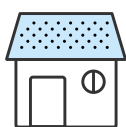
Chae and Cem took out a multi-party mortgage with Gen H in February 2022 for their £465,000 maisonette in East Finchley, London. Their £100,000 deposit was part-funded by Chae’s mum Harjit and stepdad Malcolm, with the option of this lump sum returning to them if the property’s sold in the future. Chae and Cem pay around £1,200 a month

in mortgage repayments, with stepdad Malcolm topping this up with £15 a month. Chae, 28, said: “I’m so happy to be living where I grew up – and so close to my mum and stepdad. My mum plays a huge role in looking after my children. I couldn’t have done this without their help, as renting took all the money we had each month.”



## Contribute to a Lifetime ISA to boost a home deposit

The Lifetime individual savings account (LISA) is a great way to build a deposit for a first home. Adults aged 18 to 39 can open one, then save up to £4,000 into it each tax year. The government will give them a 25% bonus worth up to £1,000 every tax year. They can use the LISA as a deposit on a first home worth no more than £450,000.



Only the investor can open and contribute to a Lifetime ISA. But a parent wanting to help an adult child buy their first home could gift them their annual IHT exemption of £3,000 to pay into their LISA. With the 25% government bonus of £750, that would mean a total investment of £3,750.

## Contribute to a Junior ISA

If you're a grandparent and want to help out with the cost of driving lessons, a first car or further education, you could contribute to a Junior individual savings account (JISA).

A JISA is a tax-free savings account for children. There are two types to choose from: cash and stocks and shares. They can only be set up by a parent or guardian but anyone can save into them, up to a total of £9,000 each tax year.

Investing in a stocks and shares JISA for at least the recommended minimum investment term of five years can have the edge on cash savings. It can give you a better shot at outperforming inflation and growing your money in real terms. A longer time frame means your investments have the opportunity to smooth out any stock market ups and downs too.



To achieve a pot of £10,000 in five years, you would need to save £152 a month. If you have 18 years to save, you would only need to save £33 a month (figures assume an annual charge of 0.75% and an investment return of 4.5% a year). Your investment will go up and down, and you might get back less than you put in though.

If you're looking to invest on behalf of a child but don't want to set up a JISA, don't forget to take tax into account. A parent investing in any other way on behalf of a child might have to pay income tax on any interest over £100.

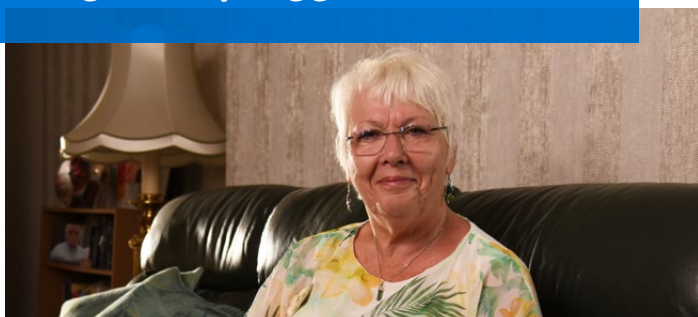


## 2. Helping loved ones get on the property ladder with equity release

Equity release lets over-50s withdraw cash from their property as a tax-free lump sum while continuing to live there. It's a loan secured against the home, and only has to be repaid from the sale of the home when they die or go into care.

How much you can withdraw depends on your age and the value of your property. Generally speaking, the older you are, the more you can borrow. Interest "rolls up" on the loan, which means the debt can grow significantly in a short space of time.

Evadne did it: "After helping my son buy a home with equity release he now pays the interest off each month so that the loan never gets any bigger."



Evadne took out a lifetime mortgage with Legal & General on her Nottingham bungalow in 2020. "It's a phenomenal feeling to have helped my son get on the property ladder after seeing him struggle to save a deposit," says the 72-year-old. "I did my own research but also took advice from an independent financial adviser who specialises in equity release."

However many products like Legal & General's **Optional Payment Lifetime Mortgage** and **Payment Term Lifetime Mortgage** (available for over 50s), allow customers to pay all or some of the interest back in full monthly to control the size of the loan.

To release equity, most homeowners take out something called a lifetime mortgage. Legal & General's mortgage products include **Lifetime Mortgages** and a **Retirement Interest Only Mortgage** (RIO). A RIO isn't an equity release product and it has different risks and benefits but like equity release, the loan isn't usually paid off until the borrower dies or moves into care.

However, sometimes equity release isn't the best choice. It may affect your means-tested benefits and tax position. Legal & General Financial Advice (LGFA), or a suitably qualified independent financial adviser, will tell you if it isn't right for you. LGFA doesn't charge an upfront advice fee and makes sure you understand every single cost involved as there may be cheaper ways for you to borrow money.

A lifetime mortgage may reduce any inheritance you might want to leave. There is an option to take out inheritance protection to secure a proportion of the net sale proceeds of your home though.

And as ever, you should make sure that you're IHT aware. Any equity release cash that you gift to a loved one could incur IHT, form part of your estate or both if you die within seven years of giving it. We explain how that could work in our "Understanding IHT" section below.





# 3. Gifting your property versus intergenerational home ownership

The largest asset we're likely to own is our home. Deciding how to pass it on can be fraught with financial challenges – there's no sugar-coating this. But with independent financial advice and some careful consideration, you can make sure you take the right decision for you and your family.

Whatever you choose to do, it's crucial to work through its tax implications. IHT can be very complex – make sure your adviser helps you fully understand it.

## Here are some options to consider:

1. **You can leave your home to your children or grandchildren in your will – your estate will be taxed above the £175,000 family home allowance, plus any available nil rate band.**

If your estate is worth more than £2 million when you pass away, the £175,000 residence nil-rate band becomes less generous. It goes down by £1 for every £2 an estate exceeds £2 million. Visit [gov.uk/guidance/inheritance-tax-residence-nil-rate-band](https://gov.uk/guidance/inheritance-tax-residence-nil-rate-band) to find out more.

2. **You can make an outright gift of your home – it will be treated as a potentially exempt transfer (PET) which would be exempt from IHT if you live for seven more years.**

If you keep living in the house, good family relations are crucial. And you'll have to pay your child or children a market-rate rent, which could push them up into the next income tax bracket. If you don't pay market-rate rent and bills you may still be liable for IHT.

3. **Co-ownership can offer a significant IHT saving.**

For example, a parent can gift half their house to a child on agreement that the child will live with them on a part-time basis and pay their share of the expenses.

The parent may not need to pay rent to their child in this case.

On the parent's death, assuming seven years had passed, the parent would only own half the house and this may be valued at a discount for IHT – typically 15%.

But as we all know, life can be complicated and messy. Plans can change. And tax planning around this is complex.

A co-owning child may not want, or be able, to live with a parent on a part-time basis. A parent deciding they want to sell the property further down the line could raise capital gains tax (CGT) issues for a co-owning child who has another main residence.



# 4. Understanding inheritance tax (IHT)

Now we've talked through some gifting ideas and shown you how IHT could affect them, we're going to take a look at how it actually works.

Understanding IHT will become increasingly important, because steady rises in property prices and the long-term freeze of the IHT threshold mean that more of us are likely to pay it. Currently, millions don't know how much IHT their families will have to pay after they die – or even if they'll have to pay it.

## So what is IHT?

IHT is a tax that has to be paid if the value of everything you own when you die – cash, property, investments, possessions and payouts from any life policies to your estate – is both:

- greater than £325,000 (with a possible extra residence allowance of £175,000)
- going to someone who's not an exempt beneficiary

## Your IHT allowances

The £325,000 limit is called the Nil Rate Band or NRB. If your estate is worth less than this, no IHT is due. If your estate is worth more than this, IHT of up to 40% is due on the excess amount.

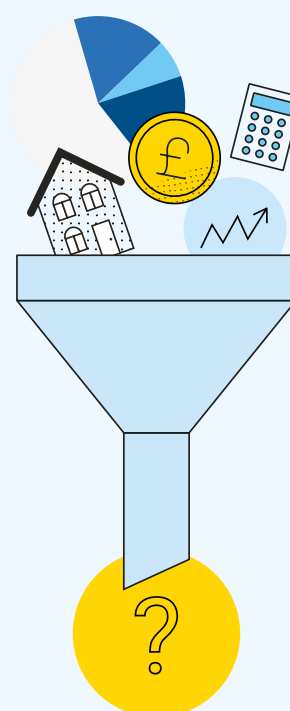
You also get an extra allowance of £175,000 if you leave your home to your children or grandchildren (including adopted, foster and stepchildren). It's called the Residence Nil Rate Band or RNRB.

In combination, the NRB and the RNRB can give you a total tax-free allowance of £500,000.

## IHT and your spouse or civil partner

If you are married or in a civil partnership your other half is exempt from IHT on gifts from you or payments from your estate, as long as they're UK domiciled. That means you can leave everything to them and they won't pay IHT on it.

You can also transfer any unused NRB and RNRB to your spouse or civil partner, so on their death there could be a combined amount of up to £1 million.





## How life insurance can help pay an inheritance tax bill

**Life insurance** provides a lump sum payment to your loved ones when you die. And knowing that they'll have that financial cushion to help them through a difficult time will give you peace of mind while you're still around.

Money from a life insurance policy could go towards paying off any IHT that's due. But bear in mind that life insurance payouts are added to the value of your estate, unless they're held in trust. If one pushes its value over the £325,000 nil-rate threshold or adds to it past that threshold, IHT may be due.

It might also be worth looking at other kinds of protection, like **Critical Illness Cover or CIC**. With CIC, if you're diagnosed with a critical illness you'll receive a payment while you're alive. If that happens and you then die before spending all of the payment, that left-over money will become part of your estate.



# 5. How IHT applies to four gifting examples

We're going to share four different examples of IHT in practice. They'll give you a sense of how it could work but are indicative only – they don't describe guaranteed outcomes. HMRC will have the final say on any IHT payments in practice.

However you decide to give your gifts, it's very important to keep a record of what you give, when you give it, who you give it to and how they're related to you. Whoever deals with your affairs when you pass away will thank you – it's essential information for them.

And finally, if you're thinking about gifting money it's always a good idea to speak to a financial adviser first. They'll explain any IHT or other financial implications of your gift. They'll also help you make sure it's the right decision for you as well as for the recipient.

## Annual gifts

You have an annual IHT exemption, or just annual exemption, of up to £3,000 each tax year. That means you can gift up to £3,000 each year without incurring a future IHT payment.

You can give it all to one person or split it between as many people as you choose.

Any recipients don't have to be family members. And you can carry it forward to the next tax year, letting you give up to £6,000. So a couple could combine two years of annual exemptions to give up to £12,000 in a single year.



Gifting this way over time can make a big difference. If you use your £3,000 annual exemption each year for 10 years, assuming tax rules stay the same, that would be a total of £30,000. If this £30,000 was part of your estate and over the £325,000 threshold, it'd be taxed at 40% on your death so the recipient would only get £18,000.

## Wedding gifts

You can make tax-free gifts of up to £5,000 for a child's marriage or civil partnership. For a grandchild or great-grandchild you can give up to £2,500.



Parents can combine their annual exemptions. For example, a couple whose child is marrying could each give at least £8,000 (a wedding gift of £5,000, a £3,000 gift, plus any unused exemption from the previous tax year).





## Larger gifts

You can directly gift as much as you like to your children during your lifetime without incurring IHT as long as you live for more than seven years after making each gift. These direct gifts are known as Potentially Exempt Transfers (PET), and can include cash, property, shares and many other kinds of assets.

It has to be an outright gift – you can't continue to benefit from it while you're still alive. For example, if you sign over a valuable painting, you shouldn't keep it hanging in your home. And if you gift a property, you can't continue to live in it unless you pay a market-rate rent.



If you die within seven years of making a PET the recipient keeps the gift. But its value is brought back into the value of your estate. That value will reduce your available NRB.

## Regular gifts from surplus income

You can make regular gifts of unlimited value that will be exempt from IHT. But you can only make them out of surplus income.

Here surplus income (sometimes known as excess income) means any income you have left over after you've met all your normal expenses.

Giving the gift can't affect your standard of living. And it can't come from any other source of capital.

This may be a helpful option if (for example) you have a generous final salary pension scheme that pays out more than you need.



School fees, music lessons and Christmas gifts are good examples of things that could count as a regular payment.





# 6. Non-financial ways of helping your loved ones

Other kinds of support can help your loved ones save a lot of money or even boost their income.



## Here are a few ideas:

### 1. Letting an adult child live with you rent-free

Rent can be eye-wateringly high – the average UK monthly rent is £1,223. An adult child can save thousands a year by living at home.

### 2. Helping out with childcare

The average price of a full-time nursery place for a toddler under the age of two is a painful £14,000 a year. Looking after a grandchild for just one day a week could save almost £3,000 a year.

### 3. Babysitting

Rates for looking after little ones are, on average, £10.70 an hour, though can be more depending on where in the UK you live. Babysitting once a month could equate to a saving of around £500 annually.

### 4. Dog sitting

Dog day care costs range from £20 to £45 a day. Looking after a beloved pooch one day a week can potentially save up to £2,000 annually.

### 5. Making sure your loved ones don't miss out on state benefits

State benefits aren't just for people out of work. Around £23bn goes unclaimed, with child benefit and Council Tax having especially low take-up. Encouraging a loved one to take 10 minutes to check their benefit entitlement with the online calculator at [Entitledto.co.uk](https://www.entitledto.co.uk) could leave them better off by hundreds or thousands of pounds a year.



# For more information on inheritance tax visit: [legalandgeneral.com/iht](https://legalandgeneral.com/iht)

It's important to seek guidance or advice before making any decisions about your money.  
You can find a financial adviser at [unbiased.co.uk](https://unbiased.co.uk).

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