

Buy House/Apartment for College-Age Child

Second home

By treating this house or apartment as a second home, parents can deduct mortgage interest and property taxes. Also, the child will have a free place to live.

Rental property

By setting the house up as rental property, parent can write off up to \$25,000 of losses on the property if their AGI is \$100,000 or less. When the child finishes school, the investment may have appreciated in value. *Important:* Parents must charge and collect rents from the child and the other renters. Hire the child as the property's resident rental manager. Parents can pay the child with free rent in exchange for the child's management services. The free rent is excludable from the child's income under Section 119.

Sell Home to Child

A retired parent can sell his or her home to his or her children on the installment basis and rent it back from them. The parent can get extra cash from the down payment and installment payments. The children can get a tax deduction even with a positive cash flow by creating a rental loss through depreciation and other expenses. If the parent is in a lower tax bracket than the children because of retirement, the interest received will be deductible at the children's higher rate. The house must be sold for a reasonable market price and rented back for a reasonable market rent.

Five Tax-Wise Ways to Help Child Buy a Home

1. **Give child down payment.** Make sure the gift of the down payment is less than the annual limitations so there is no gift tax. If the child is married, the parents can give \$14,000 each to their child and another \$14,000 each to the child's spouse for a total of \$56,000 each year.
2. **Lend child money to "Buy down" mortgage interest rate.** An advance deposit with the mortgage lender may qualify the child for a lower interest rate, which can make the difference between getting the loan or not. The interest rate will gradually rise, but so should the child's income.
3. **Buy home and rent it to the child with an option to buy.** The parent can deduct cash expenses and depreciation. The parent should charge a fair market rent.
4. **Lend child down payment (child buys home).** The parent does not need to charge any interest on a loan less than \$10,000. A loan less than \$100,000 must be charged interest only if the child's net investment income exceeds \$1,000.
5. **Enter into an equity-sharing arrangement with child.** The parent and the child each contribute part of the down payment and take title as co-owners. Each pays a proportionate share of the mortgage installments and upkeep, the child pays fair rent to the parent for the parent's share of the house, and the parent deducts his or her share of the rental expenses. If the home goes up in value, profit is shared.

*This information should be used as a guideline. Specific questions regarding this "Biz Facts" should be directed to a Business by Design tax professional.