

Steve Dodge of the Independent Financial Advice Centre (IFAC) writes on paying for Care.

In the space of two days recently I had two clients tell me they wanted to give away their houses to their children so the DSS can't take them to pay for care. The idea always seems to come from someone who is an "expert" in this field i.e. "a bloke down the pub" or a "friend of a friend of mine knows someone who" etc...

Why not give away your property? Let's deal with the DSS first. There is a benefits rule called "self deprivation of assets". If you gave away money or assets in order to claim benefits then the DSS through the courts can recover that money or property in order to pay for your care. So giving away property does **NOT** protect you from the DSS. There is no time limit!

Secondly consider Income Tax and Inheritance Tax. If you give away your home and carry on living in it you must either pay market rent to the new owners **or** a Tax known as "previously owned assets tax" (POAT) which is based on the rent you are *not paying*, or the property will still be liable to Inheritance Tax.

POAT is calculated at 5% of the value given away. EG give away a £200,000 property and the revenue will add £10,000 to your income and tax you accordingly. Even if you pay the POAT tax the property is still subject to Inheritance Tax for the next seven years, and the DSS can still treat it as "self-deprivation"!

Thirdly, think about capital gains tax, (CGT). The new owners of your property will be liable for this tax on any increase in the value of the property between the date you gave it to them and the date it's sold, at currently 18 to 28% of the increase in value after deducting any personal CGT allowance. This is in addition to any Inheritance Tax liability if the donor elected not to pay POAT!

Fourthly what happens on Divorce? Give away your property to a son or daughter who then divorces and their "ex" might now own part of your home and can insist on you selling the house or raising a mortgage to pay them their money, or charge you rent! Over 50% of marriages end in divorce.

Finally what about Bankruptcy? If one of the new owners of your property is declared insolvent or runs into a debt problem, your house is taken into account and can be sold to pay their debts.

Giving away property and living in it then is simply putting your security at risk and increasing your potential tax liabilities, whilst achieving a zero result as far as the DSS is concerned.

If going into care is a worry for you, talk to your IFA (Independent Financial Adviser) there are things you can do legally and tax efficiently to ensure that at least some monies go to the next generation and plans that could cover the cost of your care in future, without losing your security or paying more tax.