What an asset

Caroline Sherry, partner & head of property at Glazer Delmar Solicitors, suggests looking ahead to protect your assets

THE GRADUAL CLIMB in house prices, especially in London and the south east, has an upside and a downside. People who were lucky enough to be born at the right time were able to buy houses or flats cheaply and watch them go up enormously in value.

This does cause a problem further down the line. When people think about how much their home is worth, they tend to feel a warm glow and don't consider inheritance tax penalties – until it is too late. There is a belief that inheritance tax only applies to the very rich. Nowadays, the value of even a modest castle can attract the attention of the tax office. Planning ahead means you are less likely to end up giving a portion of your estate to the chancellor.

The average price of a property in London is now £300,000. Inheritance tax (IHT) is levied at 40 per cent on anything over that figure. If you have a house worth £340,000 – and jewellery, furniture, cars and books, say, worth £40,000 – you pay the tax on the amount over £300,000.

So you can see that most south London properties will push their owners into the 40 per cent tax bracket. That means a couple living in East Dulwich or Wandsworth, for example, with a Victorian terrace, a flat or 1960s semi will probably be giving a 40 per cent slice of some of its value to the chancellor if they don't plan ahead. Proper legal advice tailored to your circumstances is crucial. Families have substantial assets in their homes, and people's personal lives tend to be more complicated. For example, two divorcees setting up home together with children from previous relationships can make inheritance tax planning complicated. An experienced guide is necessary.

It is a good idea to own your property as tenants in common, not joint tenants. Joint tenants each own all the property, and if one dies before the other, the survivor automatically inherits the lot. If they are married or civil partners, they pay no tax. But once the surviving partner dies, their children or any other relative who inherits faces a large IHT bill. If you are tenants in common, there is more flexibility about who you leave your share to, and in what proportion, which can take estates out of the IHT bracket.

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Those who own property or have other assets that take their estate over the £300,000 threshold can reduce its value using gifts. By giving away £3,000 a year as an individual, you won't attract the ire of the tax office and you can bring your estate within the nil rate tax band. If someone aged 50 uses their gift facility for a decade, they will have reduced the taxable portion of their estate by £33,000. Weddings or civil partnerships mean you can make higher one-off payments of up to £5,000.

Some people decide to give their home to their children while they are still alive. This is also used to try and avoid paying care home fees. The tax office and your local council will look at the way it was done and when with a beady eye. The only way you will definitely avoid paying tax is if you die more than seven years after you do it – which is really leaving too much to fate.

Also, for that gift to be legally above board, the parent(s) would have to pay a market rent to live in the property, and records have to be kept. And there is a lack of control... The key issue is to make sure you get good legal advice in plenty of time, so you can look ahead at your leisure and reduce your inheritance tax bill. Who knows, it might even mean that your children or grandchildren can get a toehold on the property ladder.

For further advice on all residential and commercial property matters, including transfers of equity and inheritance tax planning, please contact Glazer Delmar Solicitors on 020 7639 8801; www.glazerdelmar.com