



## **GIFTING THE FAMILY HOME?**

### **A GUIDE FOR CLIENTS CONSIDERING THEIR OPTIONS**

Standard guidance supplied by

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#### **Important**

This standard guidance is issued:-

1. In conjunction with our general terms of engagement. If you have not received a set with this document or you would like to receive another set of those terms of engagement please call us and we will send you one.
2. In compliance with The Law Society guidance on gifting assets dated 6 October 2011.

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#### **For and against outright gifts of the family home**

Some of our clients decide that they might want to make a gift of the family home to their children, other relatives or even unrelated third parties. This guidance explains the options available. There are many reasons for considering making a gift of the family home.

##### **1. General affection**

You may want to recognise the love and affection you have for the proposed recipient in a significant way. This is sometimes done by way of lifetime giving instead of by Will.

##### **2. Moral obligations**

You may want to feel that you have fulfilled your moral obligations. If the recipient might be expected to be your carer in the future it may be appropriate to recognise that. It may also be appropriate for certain family promises to be met in a formal way.

##### **3. Financial obligations**

You may wish to formally recognise the contribution which a family member has made (directly or indirectly) to your property and/or to your lifestyle and personal choices.

For example a house purchase, mortgage payments, extension, patio or double-glazing may have been funded by the recipient.

#### **4. Family harmony**

Even in the best of families there can be potential for disputes especially over property and money related issues. It may be necessary to avoid problems on death by recognising the issues now by making a gift of the family home during lifetime.

#### **5. Avoidance of delays on death**

You may be concerned to reduce delays on sale of your property if you die. Without a "grant of representation" the property cannot be sold. The obtaining of that grant of representation (by the executors if there is a Will or by the next of kin if there is no Will) can take time.

#### **6. Passing on the burden of property ownership**

You may want to pass the burden of owning a property on to the next generation.

- a. This can be the financial burden as the cost of insurance, upkeep and particularly major repairs may be difficult to fund from pension and interest payments.
- b. It can also be a psychological burden. As people grow older they may find it adds to their peace of mind to be "free" from property ownership.

#### **7. Administrative efficiency**

As people grow older some feel that all the paperwork relating to property ownership is simply "too much". They want to pass that obligation on to others who will be responsible for it.

If you are considering making a gift of the family home then you will have your own reasons for that. Making any gift raises a very important question: Am I certain I want to do it? It is important to ask this in all cases but even more so when the family home is concerned. It may be your main asset. It may represent your personal and financial security and your care choices. There are many reasons to be cautious.

It is very important you are aware that we do not usually recommend that clients make an outright gift of the family home, even to their children. It is usually against advice.

### **Reasons for caution about making outright gifts of the family home**

Some of our concerns over clients making outright gifts of the family home are as follows:-

#### **1. Financial difficulties of the recipient**

The recipient of an outright gift owns the asset received. It will be taken into account as one of their resources on bankruptcy. It may be lost to creditors. This can be a disaster for the parents who earlier gifted them their property. They can be left without a residence. There are also other, more common, financial pressures. The recipient may become unemployed, be forced to take a pay cut or fall ill. The recipient might not willingly seek to sell the property to help them eke out limited resources

but their partner and the pressures of their immediate family might make it irresistible. Gifts of the family home put your residence at risk.

**2. Divorce of the recipient**

Assets owned outright are taken into account as part of the resources of the parties to a marriage in a divorce settlement. Assets gifted to a recipient may be lost, if not immediately then later, to the family of the recipient's former spouse. This could make your position uncomfortable if your home was taken into account in a divorce settlement.

**3. The recipient in receipt of means-tested benefits**

The recipient might be in receipt of means-tested benefits. Those benefits could be reduced or stopped as a result of the receipt of assets. If you are to continue to live in your property this should not happen as it should be "disregarded" in their means-test calculations but if, for example, you entered care it could be taken into account. The value of the property may therefore be swallowed up because the recipient might lose entitlement to benefits and needs to sell up and spend the proceeds.

**4. Is it always good to receive?**

Some recipients suffer from anxiety upon the receipt of significant sums and particularly upon receipt of the family home. It may be best to avoid making gifts to any persons who currently appear to be quite content but who might seem nervous of the responsibility a gift would bring.

**5. The power of money**

You need to consider the possibility that money has a power all of its own. When an asset is received the desire to sell it and spend it can prove overwhelming to some people. That is even if there is no current intention on the part of the recipient to realize it. This is particularly important in the context of the transfer of the family home to the next generation. Motivating factors such as mortgages to pay, pressing debts, the desire for holidays and cars, and the cost of child rearing, even if there is no financial crisis as such, can turn the heart of some towards realizing capital by whatever means necessary. Sadly it does happen.

**6. The recipient who is "under the influence"**

It is wise to bear in mind the possibility that, even if a child or other potential recipient is presently well disposed to you, a third-party such as a spouse or other person (perhaps not even on the scene yet) may not be. Drink and drugs have also led to the demise of many fortunes.

**7. The recipient who is a "rake"**

It may be that the recipient of an outright gift simply gives up working as hard as they have before. They receive what they consider to be a great sum and cease to apply themselves to their education, work or life in general.

**8. The recipient who dies prematurely**

If a child dies, an asset given to them outright may pass by Will or the "rules of intestacy" to a spouse who may remarry. They can also move out of the family for

other reasons. No one who has given away significant assets, especially the family home, would care to be in the hands of the family of another.

#### **9. Gifts of income-generating assets**

If income-generating assets are important and are given away there will be a possible impact on the standard of living of the person making the gift. This is particularly important when interest rates are low or falling. If you make an outright gift of your home it cannot be used by you to generate an income should you need that rather than a place to live.

#### **10. False hopes about tax**

Some clients expect that all gifts, including a gift from which they retain a benefit, such as residence in the form of the family home, will have the effect of saving inheritance tax or some other tax. It will not usually have such an effect. It should also be noted that if the family home is transferred to a recipient who does not live there it will neither have the benefit of the "principal private residence exemption" to capital gains tax on sale nor the benefit of "capital gains tax free uplift" on your death. If you decide to proceed with an outright gift this important and complex topic will need to be explained to you in more detail.

#### **11. Abandoned donors**

Clients sometimes assume that, having made a gift, the recipient will honour them with even more love, care and financial support in case of need. Unfortunately the reverse may be true. The recipient may consider that there is little reason to help an older person stay at home. This lack of support may condemn them to early entry in the care home. Their gift may also have deprived them of the opportunity to choose a better quality of care or better choice of care to suit them. Local authority provision tends to be of a relatively basic level.

#### **12. Long-term care provision**

Please take careful note of the advice given later in this guidance concerning the implications of gifting the family home for long-term care arrangements.

**Your home can be dealt with as you see fit. If, having carefully considered the situation, you decide to make an outright gift of the family home then it is your choice. We can assist you in that transfer. However, that will usually be against advice.**

**Do not forget about Wills, Lasting Powers of Attorney and financial advice.**

- **Wills:** If you want to ensure a particular person inherits the family home (for example a child who lives with you) you can often achieve this objective by making a Will in their favour. This means that the asset remains yours until death. That can help you retain your flexibility. If you wish to discuss this option then please call us.
- **Lasting Powers of Attorney:** If you want to pass the burden of your concerns over dealing with the family home and other money matters to your children or others then you may not need to make a gift of the property. "Lasting Powers of Attorney" allow you to designate others to look after it for you. That can help you retain your flexibility. If you wish to discuss this option then please call us.

- **Financial advice:** If you would like to investigate what independent financial advice might offer to you, perhaps in respect of retirement or longer-term planning, whilst we do not effect such advice we can introduce you to qualified and authorized advisers. To discuss this please call us.

## **Transferring the family home into a “flexible life interest trust” :**

### **A “family trust”**

Instead of transferring the family home outright it is worth considering the alternatives such as Wills and Lasting Powers of Attorney. However, the primary alternatives to an outright gift, if you decide that you do wish to transfer your property, is the flexible life interest trust. It is sometimes called a “family trust”.

#### **What is a trust?**

A “trust” is a relationship which is recognised and enforceable in the courts. Its details are contained in a “trust deed” which is rather like a rule book.

#### **Trustees**

Where there is a transfer of a home into a family trust then that property becomes “the trust fund”. It is put into the names of persons called “the trustees”.

- The trustees have certain powers over the handling of the trust fund for the benefit of the “beneficiaries” named in the trust deed.
- You may be a trustee but that is not recommended. It defeats the objective of passing on responsibility properly.
- Beneficiaries can be trustees but sometimes this can create a “conflict of interest”
- You will need to choose your trustees. A minimum of two and maximum of four should be chosen
- It is vitally important that you choose your trustees wisely. The trustees have certain discretions although they must act in accordance with the trust deed.

#### **What must the trustees do?**

- Trustees do not have any power to go beyond the terms of the trust deed. Most things which a person would want to do with his own money can be done by the trustees for the benefit of the beneficiaries.
- For example at an appropriate time the trustees can, upon taking appropriate advice, open and operate a trust bank account, invest money, buy and insure property and purchase help and assistance for the beneficiaries.
- The “standard provisions” of the Society of Trusts and Estates Practitioners are also used in the trust deed. They explain how the trust can be administered. They are accepted by the courts for various purposes.

## **What are the duties of the trustees?**

Trustees must:

1. Disclose any circumstances where they might have a conflict of interest with a beneficiary. If a beneficiary owes a trustee money this should be disclosed.
2. Not act in conflict with the interest of the beneficiaries or profit from their role as trustee.
3. Ensure they know what the terms of the trust are and that they are carried out.
4. Ensure that they do not act beyond the terms of the trust and their powers given by it.
5. Ensure that good trust records and accounts are kept and that any tax due is paid on time.
6. Take independent financial advice at appropriate times. This does not preclude the use of common sense. The trustees must also ensure that the advice taken is in accord with the Trustee Act 2000. The ultimate decision over what to invest in is the trustees' decision. It cannot be delegated.
7. Act impartially and fairly between multiple beneficiaries and those who are beneficiaries now and those who will be in the future.
8. Take reasonable care. Professional trustees must take more care than others.
9. Act jointly. Trustees should not normally delegate functions to each other. Trustees are jointly liable for mistakes and should therefore act together.
10. Not charge fees. Only professional trustees can claim more than their out of pocket expenses.
11. Ensure the beneficiaries are kept fully informed. This avoids disputes.

These are onerous responsibilities. That is one reason why we recommend that at least one professional trustee is appointed.

## **The terms of the trust deed**

- The beneficiaries will usually be you as the person(s) placing the home into the family trust for the duration of your life or lives (or until the trustees – for some good reason – consider otherwise) and then your children.
- Other options are possible depending upon your circumstances. We can discuss these with you in detail.

## **Can you continue to live in your homes as you do now?**

- During your lifetime you can have the benefit of what is presently your home.
- The home can be sold if you need to move with the proceeds being reinvested in another property for you. Alternatively the proceeds can be invested to generate an income for you as necessary.

- You do need to be aware that having a property in a trust is not the same as having it in your own name. The trustees can override your interest in the property (and any sale proceeds) if they have a good reason to do so which can be justified at law. This is another reason why we recommend that at least one professional trustee is appointed.

## **Why might a family trust be better than making an outright gift of the family home?**

### **1. General affection and moral obligations**

These can be fulfilled by founding a family trust. You can set matters in motion before you die similarly to an outright gift.

### **2. Financial obligations**

Founding a family trust can formally recognise the contribution which a family member or other person has made (directly or indirectly) to the property and/or to your lifestyle and care.

### **3. Family harmony**

It may be desirable to avoid problems on death by recognising the issues now and by doing something about them during your lifetime. A trust can do this as well as an outright gift.

### **4. Knowing where the property will pass on your death**

Having founded a family trust you will be able to tell where it will go upon your death. It passes upon the terms of the trust which is already in motion when you die. This can add to your peace of mind.

### **5. Avoidance of delays on death**

A property in a family trust can be sold without a grant of representation. The trustees can sign all the paperwork.

### **6. Passing on the burden of property ownership**

You can pass the burden of owning a property on to the next generation using a trust:

- a. The financial burden can be met by the trustees and beneficiaries if they agree to that. They may be more willing to do this once the commitment of a trust is put in place by you
- b. The psychological burden can be lifted from you. It will become the trustees' responsibility to deal with the property and not yours.

### **7. Administrative efficiency**

As you grow older you can rest assured that all the paperwork relating to property ownership must be dealt with by the trustees. Even if you lost your mental capacity the trustees could handle that paperwork for you.

## **8. Retention of a place to live**

You can remain in the home so long as you wish unless circumstances change and the property must be sold to buy another suitable property or because you no longer need a home to live in.

## **9. Retention of income and discretionary capital payments**

If the home is sold then you remain entitled to an income from it. This means that, if needed, funds will be available to supplement your income should you need to live elsewhere. You can also have payments of capital made to you at the discretion of the trustees.

## **10. The trustees do not own the property in the trust fund outright**

For as long as you live the property is not theirs to deal with as they see fit and should not be available to their creditors or other claimants against their finances. It is a future interest so far as they are concerned. It offers better security to you than an outright gift might.

## **What are the main disadvantages of founding a family trust?**

### **1. Trustee ownership is not the same thing as owning a property yourself**

The trustees have discretions. This can however be taken into account in the terms of the trust deed. We will need to discuss those terms with you very carefully before you sign the trust deed.

### **2. Loans**

If you need the property to support a loan such as a "home income scheme" the trust will not be able to achieve this for you. But the same is also true of making outright gifts.

## **What administrative matters must be considered when a family trust is founded?**

The main administrative matters are as follows. We can assist with these and as the family home will be likely to be the main trust asset whilst you need to live there the tax issues are not likely to be relevant. Some of this information is technical and is subject to changes in the law:-

### **1. Record keeping**

It is wise for trustees to keep records of receipts and payments and other transactions relating to the trust. This can be important for tax and other practical purposes. Any important transactions should be carried out only after taking legal advice to avoid problems but that is similar to the situation where you are considering doing something with your own money.

### **2. Buildings insurance**

If the home is placed into trust then the buildings insurance must be transferred into the names of the trustees. This is because the deeds are in their names. Insurance brokers do not usually charge for this. Contents cover should remain in your own name(s). The contents remain your own.

### 3. Tax matters

Do not be alarmed that tax will suddenly become a complex issue. Whilst you still live in the home held within the trust it should not have a great impact. Even after any sale it should be straightforward. All trusts must be registered with the tax office. We will do that for you. The yearly trust tax return looks complicated but usually there will be little, if anything, to include within it. Again we can assist if there are any queries:-

- a. **Inheritance tax (IHT).** Inheritance tax should be neither saved nor increased by transferring your home into a family trust. It is invariably inheritance tax neutral. It is not a part of a tax planning scheme. There should be no IHT charge on founding a family trust provided that the value of certain gifts made by you within the last seven years and the value of the property is under £325,000 for the tax year 2013-14, or where a husband and wife or civil partners own the property that its value is not more than £650,000 for the tax year 2013-14. Specific advice should be taken on this at the time.
- b. **Capital gains tax (CGT).** There should not be any capital gains tax payable upon the transfer of your home into the family trust. This is because the "principal private residence exemption" to capital gains tax applies on entry into trust and subsequently. (It does not apply to property held after an outright gift to a person who does not live there). But if you have not always lived in the property whilst you have owned it (perhaps it was built after you bought the plot) there can be a CGT charge upon founding a family trust. Also if you cease to live there for a few years and then it is sold there can sometimes be CGT to pay. This is all the same as if you owned the property in your own name. If there are other assets held in the trust, apart from cash (there is no CGT on cash), then the current CGT rate applicable to trusts is 28% (2013-14 tax year). There is no CGT trusts annual exemption whilst you live. Your own CGT annual exemption applies to any relevant trust gains. In essence it is unlikely that CGT will have any significant impact unless there is no home involved as the main trust asset for a long period of time.
- c. **Income tax.** There is no income tax charge upon founding a family trust. Whilst you live in the home within the trust you are unlikely to be paying a rent for that residence. If however it is let out or the sale proceeds generate an income by way of interest the tax liability is set at the lower rate or the basic rate depending upon the asset type. This is practically the same as for any income which you presently receive. If you are higher rate taxpayer an excess up to that rate may be due from you.
- d. **Stamp duty land tax (SDLT).** Unless there is "consideration" i.e. money paid for the transaction, there is no tax to pay on founding the family trust. There may be SDLT to pay if the property is sold and another is purchased for you to live in. The amount depends upon the cost of the new property. This is the same as if the property was in your own name. *Note:* if your home is subject to a mortgage then transfer into a family trust may not be possible. Even if it were agreed with the lender there might be a charge to SDLT because as the trustees would be taking on the liability to pay the mortgage that would count as a consideration. The tax due would depend on the value outstanding on the loan. Transfers subject to mortgage are very rare.

- e. **The Pre-owned Asset Rules: "Rent tax"**. In some situations there is a special charge to income tax under Finance Act 2004 Schedule 15. This does not apply where you have an interest under a family trust. It only applies in special circumstances, usually involving complex inheritance tax planning schemes. In the case of a family trust the exemptions within Schedule 15 Section 11 apply.

In short, the foundation of a family trust and its administration should not deter you from founding such a trust if you believe that it is right for you.

## **Standard guidance on the cost of long-term care**

The Law Society has published guidance which notes that solicitors should provide certain advice when clients, particularly older ones, are considering making substantial gifts, especially where the family home is involved. "Gifts" include both outright gifts and transfers into trust.

This part of our standard advice arises from the Law Society guidance to solicitors: "*Making Gifts of Assets*". It is important and you should consider it carefully:

### **1. Avoid "schemes"**

The Law Society is aware of a number of non-solicitor legal advice services which sell schemes with the aim of making a gift of property with the intention of reducing the older person's liability to pay care home fees under the local authority means-test. It notes "Some clients may have received advice from non-solicitor legal advice services that included unjustified claims about gifting of assets to avoid the assets being considered for inheritance tax or care fees liability". Advice from solicitors such as Berwins should be quite different to that for an "off the shelf" product sold by an unqualified person. The risks involved in gifting or transferring the family home have, for example, been addressed in detail above. If you have any doubts at all you should discuss these with us before going ahead. We can tailor a trust deed to your requirements. You should not go ahead if you are at all concerned that the transaction is not exactly what you want to do.

### **2. It is your decision**

If you are seeking to transfer your family home only because somebody else wants you to and it is not simply your decision then you should not do it. That person may have a "conflict of interest" with you.

### **3. The Law Society stance on planning to reduce the cost of long-term care fees**

The Law Society guidance notes that "there is no foolproof way of avoiding the value of assets being taken into account for means testing. Anti-avoidance measures in the law allow some gifts to be ignored by the authorities, and even set aside by the court. The measures are subject to periodic change, might apply retrospectively, and are pursued more vigorously by some authorities than others." We agree with this advice.

### **4. The action which a local authority might take following a transaction which reduces the liability to pay for the cost of long-term care must be set in context**

The Law Society advises that you should be made aware of certain local authority powers. It is quite right that you should be advised that those powers are important.

It is however also fair to say that those powers should not be exaggerated. Only a small percentage of people need long-term care so they may never even become relevant to you. Also sometimes the NHS has a responsibility to pay all a person's care fees. Even if that is not the case if you entered nursing home care the NHS would be liable to pay a contribution to cover nursing costs. Local authority means-test assessments for long-term care fees can also be wrong and may be challenged through their complaints procedures, the Local Government Ombudsman and the court.

**5. What sort of action can a local authority take if a transaction is made which reduces liability to pay for the cost of long-term care?**

Local authorities can sometimes place a charge on property (like a mortgage) if care fees remain unpaid but that does not apply to gifted property. That might be said to be an advantage of making a gift but gifts should probably not be entered into if that is the only concern. The local authority can in some circumstances send the bill for care fees to the recipient of the gift or the trustees. But that is only if you avail yourself of local authority assistance within six months of entering permanent residential care. They can sometimes treat you as owning the value of something which has been given away or placed into trust. That would limit your entitlement to local authority assistance. But, whilst that rule has no theoretical time limit, they can only apply that "notional capital" if they can make a reasonable link between the transaction and your subsequent claim for care. If you are in reasonable health now then over the course of time the risk of that will fade. There are also other possible legal arguments against the application of those rules. Each case must be assessed on its merits. A local authority can also potentially sue for debts but there may be a good defence, if they have misapplied the means-testing rules. Again it depends upon the circumstances. Sometimes the bankruptcy and insolvency rules can be invoked to set transactions aside. Few local authorities are willing to attempt that. It is potentially complex. It generates bad feeling and such claims may fail in court. You do however need to be aware of the possibilities. As the Law Society rightly says "there is no foolproof way of avoiding the value of assets being taken into account for means testing". It would perhaps be surprising if there were.

**In short, you should take care before deciding whether or not to make a gift of any type. Gifts can limit your choices. There can also sometimes be problems with local authority assessments for help with long-term care fees.**

**Fees: What we charge for and how we calculate our fees for setting up family trusts**

1. We are open about the way we calculate our fees. The following explanation should make them clear. If you have any questions please contact us. This information should be read in conjunction with our terms of engagement. If you want another copy of those terms please ask us.
2. We offer a free initial interview of up to thirty minutes. We charge for all our time spent in providing advice and assistance as well as for producing documentation. That expertise has a value apart from the time spent drafting papers. Our charges are based upon an hourly rate of £180 plus VAT. But a fixed fee is usually applicable. Our usual fixed fees are detailed below.
3. Please note that the hourly rate is subject to annual review. Work agreed at a fixed fee will not be charged at a later higher rate if this guide is signed and also returned

to us for our immediate action. Work agreed at a fixed fee cannot be done on a deferred basis.

4. Fixed fees are subject to no unforeseen work being required. If you require extensive meetings/correspondence which we would not normally engage in, or request that we travel to visit you at home, the hourly rate will apply to that extra time. It will also apply to addressing any problems with your deeds. We will advise you in advance if the fixed fee is likely to be exceeded.
5. We charge for any work subsequent to foundation of the trust at the then current hourly rate. We cannot provide any advice or assistance without charging for it.

There will also be a Land Registry fee for transferring the property and these fees will vary depending on the value of your property. We will advise you about this fee in writing if you instruct us to proceed with the transfer.

**Declaration for clients wishing to proceed with a family trust**

I/We have read through/had read through to me/us the above notes and fee structure and have fully understood them.

I/We wish to go ahead with a family trust and this is my/our agreement for you to proceed with the legal work required.

I/We understand that if the work is discontinued at any point before completion of the matter I/we will be liable to pay for the cost of time up to that point.

Date ..... Signed (1) .....

Name in capitals: .....

Date ..... Signed (2) .....

Name in capitals: .....

**Please return one copy of this guide to the person responsible for handling your matter.**

**Please keep the copy safely.**