

Steve Dodge writes

Well well well, if you saw last month's item regarding the budget, I did point out that with Mr Brown very often the nasty bits are not mentioned and we only hear about them the next day or so.

Well how about 20-year retrospective legislation then!

From a very quiet no-event budget to an absolute bombshell that could affect virtually every family in the southeast and mean hundreds of thousands of Wills need to be re-written and/or Trusts unravelled, what a budget.

What happened? Well the rules on Trusts are changing and may affect existing Trusts dating back to when Inheritance Tax was introduced in 1984 and possibly even back to 1974 when capital transfer tax replaced Estate Duty.

The Revenue is denying it so an election must be due. We must wait for the detailed rules so watch this space, once I know what's happening I will let you know!

I've had a few calls about POAT following the last item, and this is a tricky one to give more information on. Previously owned assets tax (POAT) has already started and if for example you gave away half your house to your offspring but continue to live in it, you must now pay income tax on the rent you are not paying to your children.

Suppose your house was worth £200,000 and you gave half of it to your son & daughter ten years ago and its now worth £500,000.

Your children own half so the rent is calculated at 5% of £250,000 i.e. £12,500 p.a. at the 22% tax rate the POAT payable is £2,750 p.a. or at higher rate tax, 40%, £5,000 p.a.

Give the property back to avoid the POAT (before January 2007) and the Son & Daughter may have a gain of £75,000 each for capital gains tax at up to 40% of the "relieved" profit and the property will attract Inheritance tax of 40% on your demise, i.e. £86,000 on the property alone assuming you have no other assets.

I am hopeful that the Children may be able to give the property back at its original acquisition price and thus avoid CGT but I am waiting for confirmation from our tax lawyers.

So depending on age health and how long ago the gift was made it may be worthwhile simply paying the POAT, and hope to avoid inheritance tax, but seek advice it really is a terrible tax.