

MEMORANDUM

TO: Commission on Taxation
 FROM: Mary Foley (Contact Telephone:
 DATE: 25th March, 2009
 SUBJECT: **Fairness and Equity - Inheritance Tax**

<i>Issue</i>	<i>Description</i>	<i>Solution</i>
<i>Time Scale</i>	<p>Income Tax is payable 31st October, ten months after previous calendar year end.</p> <p>Inheritance Tax is (generally) payable four months after Date of Death. If payment is even one week late, interest is chargeable from Date of Death. From my experience, nobody is in a position to start calculating inheritance tax on the day after a funeral. Four months is too short a time to deal with the many issues that arise on a death.</p>	<p>At the very least, time scale for Inheritance Tax should be the same as for Income Tax.</p> <p>Interest on overdue Inheritance Tax should accrue from payment date and not from date of death.</p>
<i>Dwelling House (Family Home)</i>	<p>Occupants of a family home should be exempt from Inheritance Tax, regardless of relationship.</p> <p>There is an Dwelling House exemption with restrictions, one condition is that beneficiary must not have an interest in another house (an "interest" - not even full ownership).</p> <p><u>Example 1</u>: Single siblings who have lived in family home all their lives and home has passed to them (as joint tenants) from their parents - if one sibling dies and the survivor has an interest in another property, full inheritance tax is payable on family home at Threshold B rate.</p> <p><u>Example 2</u>: If a survivor were to inherit family home plus a second property, the second property should be fully taxable but the family home should be exempt.</p>	<p>Family home should always be exempt from Inheritance Tax.</p> <p>If this is not allowed, presume there should be no obstacle for occupants of family home to form a Civil Partnership (under the proposed legislation).</p>
<i>Thresholds</i>	<p>Threshold B for siblings is too low (especially in the case of single siblings inheriting from each other).</p> <p>Threshold A should apply for Child to Parent. Unfortunately, young people may die before their parents. Where the parents are next-of-kin, Threshold A should apply. Threshold A should also apply for Grandparent to grandchild.</p> <p>In family relationships, cousins are treated as "strangers" - Threshold C. Many single siblings may not have nieces or nephews but will probably have cousins. Threshold B should apply.</p>	<p>Threshold A, say 600,000</p> <p>Threshold B half Threshold A</p> <p>Threshold C quarter Threshold A</p> <p>OR introduce additional thresholds to apply to various family relationships.</p>

<p><i>Inequity - Loss of Threshold</i></p>	<p>Situation where a widowed mother intended to pass her home to her only child (who was married with children). However, the only child predeceased her widowed mother.</p> <p>Subsequently, home was passed to a grandchild, Threshold B applied. Grandchild had to raise a mortgage to pay Inheritance Tax. This occurred at height of property values.</p> <p>In this example, threshold - parent to child - was lost twice.</p> <p><i>(In the small print of an explanatory booklet relating to Inheritance Tax [not in the leaflet on Inheritance/ Gift Tax], it is stated that an estate can pass to the spouse of a deceased child and Threshold A applies. However, if the property was then passed from surviving parent to child, it would probably be classified as a related transaction).</i></p>	<p>Discretion should be allowed in cases where there is obvious inequity and a fair remedy should apply.</p>
<p><i>Inheritance Tax on same asset</i></p>	<p>Situation where a house was jointly held by four parties, three siblings - two single - and a married sibling and spouse.</p> <p>Married sibling was final survivor. Tax was based on <u>each</u> of previous shares inherited.</p>	<p>Where same asset passes several times, tax calculation should be on final determination - in this case 50% of value is what actually passed.</p>
<p><i>Realised/ Unrealised Value</i></p>	<p>Inheritance Tax is generally based on unrealised value of assets at date of death.</p> <p>If asset inherited is later realised and a profit made by the beneficiary, capital gains tax may be payable.</p> <p>If the opposite happens and a loss is incurred, generally there is no mitigation on the amount of Inheritance Tax already paid.</p> <p>(Equally, a situation could happen where Inheritance Tax due is more than the current value of an asset.)</p>	<p>Within a certain timeframe, current realised values should be taken into consideration and a refund made if appropriate.</p>

Finally, on a different subject, there is little incentive for people to save - **savers are losers**. Savings are generally made from net income but additional taxes (such as Deposit Interest Retention Tax or Capital Gains Tax) are applicable on investments and the Health Levy is applied to all income. A reasonable level of return on savings should be allowed before any tax or levy is applied.
