

## THE AGN EUROPEAN REGION

### -- 2004 Inheritance Tax Survey --

Accountants Global Network (AGN) International is an association of separate and independent accounting and consulting firms, represented in 80 countries with 500 office locations and 10,000 partners and staff. The AGN European Region conducts annual surveys of corporate taxes, corporate structures, value added taxes (VAT), salary taxes and inheritance taxes. These surveys have been produced for a number of years and provide interesting comparisons as well as insights into trends.

As Europeans become richer an increasing proportion of the population is likely to find that they are affected by inheritance and gift taxes. Inheritance tax is frequently overlooked in terms of tax planning, and even relatively straightforward planning opportunities are often forgone.

European Nationals have the freedom to live and work in any European Union country, and increasing numbers are choosing to emigrate, to enjoy a sunnier climate or to release capital tied up in real estate and take advantage of a lower cost of living for a more comfortable retirement. For those who do not want their savings to be left to the state the impact of inheritance tax must be considered, and the AGN survey provides a useful first indicator and contact details of member firms in each country.

The objective of the Inheritance Tax survey is to compare the levels of inheritance tax payable in different European countries. The results for 2004 show some substantial differences, from an effective tax rate of almost 22% in the Netherlands to no tax at all in a group of countries including, Cyprus, Gibraltar and Malta.

The 22 countries covered by the 2004 survey were: Austria, Belgium, Croatia, Cyprus, Czech Republic, Finland, France, Germany, Gibraltar, Greece, Ireland, Italy, Luxembourg, Malta, The Netherlands, Portugal, Russia, Slovenia, Spain, Sweden, Switzerland and the United Kingdom.

#### **This year's survey**

The 2004 Inheritance Tax survey is based on the death of an individual on 1 January 2004 leaving a wife and two children. He has not made a will and the assets he owns when he dies are: a house worth €600,000, €1,000,000 in cash, company shares valued at €300,000 and unquoted shares to the value of €700,000 in a privately owned company.

To avoid complications the AGN survey considers the position if there is no will. Although an updated will should be an essential element in a family's financial planning, it seems that unwillingness to draw up such a document is common in all the countries surveyed.

The survey establishes whether each country has gift or inheritance taxes before going on to more detailed questions concerning the calculation of the tax rate, such as the relevance of the relationship of the heirs to the deceased. In some countries, such as France, there are 'forced heirship' rules which dictate who benefits from the deceased's estate. In other countries, such as the United Kingdom, there is relative freedom for the deceased, through a will drawn up during the individual's lifetime, to choose who (inside or outside the family) receives which assets. With careful planning they may also have some choice over how much inheritance tax will be payable.

In the majority of countries the tax rate is based upon the total value of the assets, but often varies according to the type of asset. If the family home is the main asset, Russia is particularly generous in tax terms as only 0% of the value of the house is taken in calculating the inheritance tax payable. When assessing the value of a property in Germany, Finland, Portugal, Sweden, Austria, Slovenia and Spain it must be taken into account that it will not be the actual market value because varying valuation methods are applied.

As regards company shares it is usually important to draw a distinction between those which represent a small proportion of the shares in a company listed on a recognised stock exchange and shareholdings in an unquoted or family business. The proportion of the shareholding can also be important, with exemptions available if more than a particular percentage of the total share capital in the company is held. This can mean that giving away a small number of shares results in the exemption no longer applying, and the value of the remaining estate for inheritance tax purposes actually increases!

In the majority of the surveyed countries quoted shares and unquoted shares are taxed at 100% of their market value. Exceptions in respect of unquoted shares are Sweden (30%) and the United Kingdom where these shares are in fact exempt from tax. Often, for example in Germany, the share is valued by applying a standard valuation method to determine the market value, which however is not actually reached.

Most countries include cash at 100% of its value in the calculation of the inheritance tax due, but there are exceptions worthy of note. The rate in Austria is 0%. Therefore it may be advisable to sell assets for cash to avoid inheritance tax.

Although the survey focuses on these, inheritance and gift taxes are not the only taxes to be considered: capital gains, income and property transfer taxes may be equally important.

The different ways in which the inheritance is distributed is also worth noting. Whereas the vast majority of countries favour the surviving spouse as opposed to the surviving children, in Spain and Greece the children inherit more *per capita* than the surviving spouse. In Luxembourg the surviving spouse does not inherit at all in certain circumstances. (The widow can choose life use of house and the children inherit all assets; or 1/3 each). On the other hand in Sweden the spouse inherits while the children are not entitled to anything.

In countries such as Italy, Austria, the Netherlands, Russia and Croatia each receives 1/3 of the estate.

### CONCLUSION

**In conclusion it can be established that the vast majority of the countries tax an estate worth €2,600,000 which is divided between a surviving spouse and two children at a rate of between 0% and 10%. Russia, Greece and Spain apply a tax rate of between 10% and 20%, while in the Netherlands a tax rate of around 21% is applied.**

*Before taking or refraining from action in relation to inheritance tax and gift tax, specific professional advice should be taken in the countries of the individual's residence, domicile and, possibly, location of assets.*

*Full details of the AGN 2004 Inheritance Tax survey, including a chart comparing the countries surveyed, can be obtained free of charge from AGN Europe's head office at 5-6 Francis Grove, London SW19 4DT, telephone+ 44 (0) 20 8947 4888, e-mail [info@agn.org](mailto:info@agn.org) or downloaded from the internet at [www.agn.org](http://www.agn.org)*

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