THE AGN EUROPEAN REGION
-- 2006 Inheritance Tax Survey --

AGN International is an association of separate and independent accounting and consulting firms, represented in 83 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 and insight 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 not taken.

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 realise capital tied up in real estate and take advantage of a lower cost of living to achieve 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 2006 show some substantial differences, from an effective tax rate of 21,9% in Belgium to no tax at all in a group of countries including Croatia, Cyprus, Czech Republic, Ireland, Italy, Luxembourg, Portugal, Russia, Slovenia, Sweden and Switzerland.

The 21 countries covered by the 2005 survey were: Austria, Belgium, Croatia, Cyprus,
Czech Republic, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta,
The Netherlands, Portugal, Russia, Slovenia, Spain, Sweden, Switzerland and the UK.

This year's survey

The 2006 Inheritance Tax survey is based on the death of an individual on 1 January 2006 leaving his wife and two children. He has not made a Will and the assets he owns when he dies are: a house worth €600,000, cash of €1,000,000, company quoted shares valued at € 300,000 and company unquoted shares valued at € 700,000.

To avoid complication the AGN survey considers the position if there is no Will. Although an up-to-date Will should be an essential element in a family's financial planning, it seems that unwillingness to prepare 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 created 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 2005 only Cyprus and Sweden had neither gift tax nor inheritance tax. Italy had only a tax on gifts, Malta only inheritance tax. None of the countries that participated in the survey the previous year has since introduced either gift or inheritance tax. Cyprus and Russia abolished gift and inheritance tax.

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 the asset. If the family home is the main asset, Austria, Germany, Malta and Spain are particularly generous in tax terms as only 30% (A), 70% (G), 50% (M) and 58% (S) respectively of the value of the house is used in the calculation of the inheritance tax payable. Germany is facing changes in the valuation of real estate and business property for tax purposes.

For company shares it is usually important to draw a distinction between those which are 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!

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

Although the survey focuses on these, inheritance and gift taxes are also not the only taxes to be considered: capital gains, income and property transfer taxes may be equally important. As the American politician Benjamin Franklin famously said in 1789, "In this world nothing can be said to be certain, except death and taxes."

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 Inheritance Tax survey, including a chart comparing the countries surveyed, can be downloaded from the internet at www.agn-europe.org or 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