

THE AGN EUROPEAN REGION -- 2007 Gift & Inheritance 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, parent companies, corporate, value added (VAT), salary and social security and inheritance taxes. These surveys have been produced for a number of years and provide interesting comparisons from year to year and from country to country and give an insight into trends.

Introduction: 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 straight forward 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.

The objective of the Inheritance Tax survey is to compare the levels of inheritance tax payable in different European countries. We have requested the AGN members in each country to calculate the amount of inheritance tax that would be payable by an individual who dies on January 1, 2007 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.

Countries Covered: The 2007 survey covers 21 countries (20 members of the EU as well as Switzerland).

Results of the 2007 Survey

Wills: 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.

Gift and Inheritance Taxes: 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 2007 only Cyprus, Estonia and Sweden had neither gift tax nor inheritance tax. Italy only had a tax on gifts, Malta and Romania only inheritance tax. None of the countries that participated in the survey the previous year has since introduced either gift or inheritance tax. Inheritance tax in Austria was cancelled effective from August 2008.

Tax Rate: 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.

Family Home: If the family home is the main asset, Austria, France, Germany, Malta, Romania, Slovenia, Spain and Sweden are particularly generous in tax terms as only 30% (A), 80% (F), 70% (G), 50% (M), 80% (R), 80% (SI), 58% (Sp) and 75 (Sw) 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; a reform of the gift and inheritance tax system is planned.

Share Portfolio: 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!

Cash: 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 and Hungary at 0%. It may be sensible to sell assets for cash to avoid inheritance tax.

CONCLUSION:

The results for 2007 show some substantial differences, from an effective tax rate of 15,7% in Greece to no tax at all in a group of countries including Cyprus, Czech Republic, Estonia, Ireland, Hungary, Italy, Luxembourg, Portugal, Slovenia, Sweden and Switzerland. 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 the above, specific professional advice should be taken.

Full details of the AGN surveys, including a chart comparing the countries surveyed, can be downloaded from the internet at www.agn-europe.org Our Organisation Latest-Tax Surveys