

Administration of Estates

Tax – briefly!

This is a brief outline of some of the tax considerations that may be relevant. Tax legislation is vast and constantly changing and any attempt to be more comprehensive may prove to be more of a hindrance than a help.

Inheritance Tax (IHT)

On death everyone benefits from a “nil rate band” (NRB) where no tax is payable. All funds in excess of this are currently taxed at 40%. In addition to the NRB there are allowances and reliefs and these will be considered in the relevant circumstances. Gifts during a person’s life may affect their tax position and it is important, therefore, to ascertain whether any gifts have been made during the deceased’s life and if so whether they will affect the tax position.

Other matters that will affect the IHT position of the deceased person’s estate are whether:

- they were a beneficiary under a trust
- they owned any property jointly
- they had inherited any assets within the last five years

This is all information that will be required when reporting the position to the Inheritance Tax Office (ITO).

Initial IHT has to be paid prior to making an application for a grant of representation. In general it is not possible to liquidate assets in the estate prior to obtaining the grant of representation.

To overcome this problem there are generally two options:

1. Apply to a bank or building society at which an account is held by the deceased to request the release of funds prior to them seeing the grant or representation in order to pay the initial IHT.
2. Take out a bank loan in the names of the PR’s

We are of course happy to assist in resolving this issue.

Capital Gains Tax (CGT)

This tax is not normally payable on death. A beneficiary will receive an asset at the value at the date of death not that at which it was originally acquired.

CGT will be relevant if the PRs sell or encash assets that have appreciated during the estate administration period.

Income Tax

There are two distinct periods that the PR needs to deal with:

1. The period to the date of death: the deceased receives a full year's personal allowance no matter what proportion of the year has passed. The deceased's tax affairs to the date of death must be finalised and the tax paid or a rebate obtained. This will either form part of the estate or be a debt due from the estate for IHT.
2. The period from the date of death to the finalisation of the administration. This may require the completion of one or more tax returns

In order to enable us to assist in finalising the Income Tax position we will need to know details of the deceased's:

- accountant
- income – examples of which are:
 - wages
 - pension (private or state)
 - dividends from shareholdings
 - bank or building society interest
 - income from national savings products
- tax district and reference number
- national insurance number