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How the U.K., France and Germany Handle Inheritance

Inheritance laws differ significantly around Europe. Here's a look at the main inheritance laws in the three largest economies in Europe: the U.K., France and Germany:

U.K.

In the U.K., where the Conservative Party floated the idea of abolishing inheritance tax before the financial crisis, the number of estates hitting the threshold has almost doubled in the past 10 years. In the 2007/2008 tax year, inheritance tax generated more than £3.8 billion ($5.7 billion) for the Treasury.

For those who are resident and domiciled in the U.K., the first £325,000 of an estate is charged at 0% and the balance at 40%. A significant change was introduced in October 2007, which allowed married couples and registered civil partners to inherit the unused inheritance tax allowance of their deceased partner. So, when the second partner dies, the inheritance-tax allowance that applies to their estate can effectively be doubled, to £650,000.

Traditionally, inheritance-tax planning in the U.K. involved the use of trusts but this has diminished since the government introduced an upfront 20% tax charge on transfers into trusts. James Kidgell, a partner at London-based accountants Dixon Wilson, says: "Trusts have become a much more expensive option, although they still offer advantages for asset protection and ensuring that heirs do not inherit wealth until reaching a suitable age. For inheritance-tax purposes to prevent an immediate tax charge, gifts must be kept within the nil rate band or be covered by other exemptions or reliefs."

Gifts made more than seven years before a person dies are normally not subject to inheritance tax and there is also a sliding scale of relief for gifts between three and seven years before death. A person can give £3,000 a year without incurring inheritance tax, but for many people the figure can be much higher, according to Mr. Kidgell. This is because regular gifts made out of "surplus" income that do not reduce your standard of living are allowed on top of the £3,000 limit.

"Increasingly, inheritance-tax planning is focusing on business or agricultural property reliefs," says Mr. Kidgell. "Subject to holding the investment long enough, a share in a trading partnership, or shares in an unquoted family trading company, would qualify for a full exemption from inheritance tax. Investment in farmland can also qualify, which is one of the reasons why farm prices have increased over the past few years, and special rules apply to shares quoted on the Alternative Investment Market. Such assets also provide scope for asset swaps between family members at a later date."

France

Unlike the U.K., France charges inheritance tax on each beneficiary rather than on the estate. The

rates also vary depending on the relationship between the deceased and the beneficiary and with the amount of the estate. Non-relatives pay up to 60% with nearly no tax-free allowance. Although President Nicolas Sarkozy abolished inheritance tax for the surviving spouse in 2007, this exemption does not extend to lifetime gifts.

"Outside France, forced heirship is generally seen as an evil but attempts to subvert the rules often lead to the beneficiaries paying more tax," says Jonathan Benford, a Paris-based partner with Dixon Wilson. "There has also been a revolution in the past two years with the introduction of the spouse exemption because, if they remarry, there is a real tension between the children's wish to have their interests protected and the extent to which there is a tax saving."

Inheritance-tax planning includes the use of *assurance vie*, a form of investment bonds that can be used to transfer assets beyond the normal confines of forced heirship; lifetime giving, which can offer an uplift of capital-gains tax; a *usufruit*, which allows a donor to give away the reversionary interest and retain the use or income of the asset; and matrimonial property rights, which allow all assets belonging to a couple to be placed in joint or community ownership, according to Mr. Benford.

Germany

In Germany, inheritance tax or gift tax is also paid by the beneficiary: the applicable tax rate ranges from 7% to 50%, depending on the relationship to the deceased or donor and on the value of the gift or the share in the estate. Every beneficiary is entitled to a personal exemption: from €500,000 ($675,200) for spouses and registered same-sex partners, to €20,000 for non-relatives.

"These exemptions can be made use of over 10 years, which brings benefits for long-term planning and making gifts during lifetime," says Ralph Winterhalter, a partner at Nuremberg-based tax consulting and law firm Schaffer & Partner. "The transfer of capital by means of gift-giving or inheritance is taxed similarly. Gifts given to the beneficiary by the deceased within the last 10 years before his death are added to the value of his estate."

Property in Germany is generally assessed at market value, but real estate and business assets are treated differently. Mr. Winterhalter says: "If the deceased passed the real estate he was living in on to his spouse or a child and the heir lives in it for another 10 years, the value of the real estate may be exempt even in full." Business property and productive property can be exempt if the beneficiary continues the business for another seven or 10 years and meets certain criteria regarding the continuation of personnel costs. —*Chris Owen*

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