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DEATH INSURANCE IS TAXABLE: By Jonathan Hore

There is no equity in taxation and that has been repeated in so many different tax cases worldwide. One hand is empowered by the law to collect from another's pocket, with or without the consent of the one who pays the tax. Such is the way taxes are administered. You do not need to have an agreement or some sort of fairness or equity with a tax. The taxman collects whilst the taxpayer pays. This sounds so unfair but again we need roads, schools, hospitals, to name but a few; and these are all funded by the taxes we pay. Worse still, the taxman collects tax from amounts that accrue from the passing on of a person! Technically, even the dead pay taxes. I want to discuss a rather sensitive issue linked to death, being the subjection of inheritance tax on the recipients of insurance proceeds. In this article, words importing the masculine shall be deemed to include the feminine.

WHAT INSURANCE IS THIS?

Most people obtain life insurance during their lifetime, which covers their beneficiaries in case of death. What then happens is that upon the death of the insured, his or her beneficiaries are the ones who are paid by the insurance companies. Technically, the person insures his or her life so that upon death, the dependents do not struggle financially. This insurance is usually critical for bread winners as it ensures that life continues even after they are gone. The experts tell us that such insurance does not form part of the estate of the late person. This means that the beneficiaries listed by the insured get the monies from the insurance funds right into their bank accounts rather than having the money forming part of the monies that are then administered by the executor of the estate. If the monies form part of the estate, then there is no guarantee that the beneficiaries would eventually receive the monies. But the big challenge is that most people are not aware that the beneficiaries or recipients of such monies are supposed to pay inheritance tax.

WHAT IS INHERITANCE TAX?

Inheritance tax is a term which refers to tax that is paid by someone who receives property, including money, arising from the passing on of another person. This is a tax chargeable in terms of the Capital Transfer Tax Act on the excess of P 100 000 of the value of such property. Spouses are exempt from the tax. You are probably asking yourself why the tax is paid. Well, the concept of inheritance tax is that one has to pay tax simply because they are richer than they were before receiving the inheritance. So, if a person receives P600 000 as insurance proceeds from the life cover of their late father, they become P600 000 richer than they were the day before that of receipt. The taxman on the other hand wants to share in those riches and demands that the receiver pays the tax.

WHAT ABOUT MORALS?

I certainly do understand the sentiments that people raise when it comes to these kind of issues. The biggest one is that it appears very immoral to have the taxman demanding taxes from someone simply because they got inheritance arising from the death of their loved ones. Yes, it appears so inconsiderate that if this issue was left to public judgement, there wouldn't be any tax on such instances. However, the tax laws separate emotions from the collection of taxes and hence they levy the taxes despite the fact that the payer may be mourning the loss of a loved one. That issue is not even covered in the law as the tax is payable simply because someone is richer than they were before.

HOW IS THE TAX PAID?
The tax is paid by the beneficiary on the excess of P100 000 that they receive from the inheritance. The tax rate starts at 2% and rises as the income increases such that at the highest bracket, it becomes P 16 000 plus 5% on the excess above P 500 000. This means that if one receives an insurance indemnity of P 600 000, the first P 100 000 is tax-free and they pay P 16 000, which is tax on the first P 500 000. This tax must be paid within 30 days from the date that BURS issues the beneficiary with a tax assessment. This technically means that the beneficiary must have filed a Capital Transfer Tax return by 30 September of the respective year.

DO PEOPLE PAY THIS TAX?
Well, some people actually do, especially those who have tax advisors. However, most people are not aware of the tax and it will not be surprising if they don’t pay the tax. But remember that ignorance of the law is no excuse buddy!

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax Whatsapp group, send me a text on the cell number below.