

HOW TO MINIMISE INHERITANCE TAX FOR YOUR KIDS: By Jonathan Hore

They say there are two certain things in life, death and taxes. Negative as it may sound but it is the truth. Most parents do not consider taxes when they acquire their property and yet it is a given that their property will be inherited by their children. So, why is it that most parents, despite a lot of them being learned, don't even pay attention to inheritance taxes which their kids may have to wrestle with? I will analyse how parents can minimise inheritance tax for their kids within the confines of the applicable Tax Acts. In this article, words importing the masculine shall be deemed to include the feminine.

Inheritance tax brief

Inheritance tax is payable by the one inheriting property from a late person and in most cases, there will be no cash reserves with which to pay the tax. Technically, except where there is an exemption, someone who inherits property will be taxed on the market value of such property, with minimal deductions. Other taxes which are close to this tax include transfer duty payable when immovable property devolves to a donee. On the other hand, BURS has ruled that no Capital Gains Tax (CGT) arises in the hands of an estate when property devolves due to an inheritance.

Effective 1 March 2020, there is no more inheritance tax on immovable property inherited by an heir, whether or not there is a will. Transfer duty has never been payable on inheritance of immovable property as there has always been an exemption to that effect. Technically, no taxes apply on immovable property due to the 1 March 2020 tax amendments. Let me also state that inheritance tax is still payable on any property devolving to heirs if such property is not immovable property. This includes the devolution of shares, livestock, money etc to heirs. Therefore, a parent's choices affect how much tax his kids pay. So, with this background, below is how parents can minimise inheritance tax their kids eventually bear.

Buy immovable property

If you have a passion for immovable property, you need to increase your investments into such assets as they will devolve to your kids literally free of taxes when you depart. Like I stated above, the transfer of immovable property from an estate to an heir is free from inheritance tax, transfer duty and CGT. The same exemptions apply to the change in the ownership of shares in companies which are real-estate rich.

Non-immovable property

If you invest in any other assets other than immovable property or shares in a company owning immovable-property, your kids will pay inheritance tax as there is no exemption available on such assets. A good example of this is shares in say a consultancy firm whose dominant assets are not immovable property. Upon transfer of such shares, the kids will pay inheritance tax. No transfer duty applies in such cases as there is no immovable property and CGT is not applicable on inheritances, as stated above. Therefore, only inheritance tax becomes payable on such shares. One way of minimising tax on your kids is by making them shareholders in your company whilst you are alive, especially at the time you start the business as the shares will almost be worthless. When you depart, they only inherit a small portion of the shares you held.

Avoid large stakes of cash

Kids also pay higher taxes when they inherit large stakes of cash. However, this is not a big issue as they may simply take part of the cash and settle the taxes. On the other hand, investing the cash in immovable property annihilates inheritance taxes and is therefore good tax planning.

Livestock

Inherited livestock ordinarily triggers inheritance tax at the market value of the livestock. The only other exception under this category is for livestock which would be part of a business of the late person. On the ground, livestock is usually not part of a business and tax is payable on its inheritance.

Start planning now

Investing more in immovable property and giving your kids shareholding in companies which are not property-rich are some of the critical decisions you may make now, to minimise inheritance tax when you depart.

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 or know more about our 8 Tax e-books, send me a text on the number below.