

WHAT SHOULD I DO ABOUT TAX WHEN SOMEONE DIES (August 2009)

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What should I do about tax when someone dies?

While tax is not the foremost consideration when someone dies, it is nevertheless one of the areas that must be sorted out before a deceased person's financial affairs can be finalised. Retaining a solicitors' firm that is skilled and experienced in the administration of Estates and who can deal with the tax implications of a deceased person's Estate will reduce the stress and worry and ensure that all tax liabilities are minimised.

Who are Morgan McManus Solicitors and how can they help?

Morgan McManus Solicitors are is a leading law firm in the border region of Monaghan, Cavan, Fermanagh and Tyrone with our main office based in Clones, County Monaghan. The firm has a Capital Taxes Group which deals with Republic of Ireland Capital Tax issues such as Inheritance and Gift Tax, Capital Gains Tax, Taxation of Trusts and Stamp Duty. As a solicitors firm also practising in Northern Ireland, we also have extensive experience dealing with the cross border capital tax issues.

The Capital Taxes Group consists of Fergal McManus and Colin O'Neill, together with support staff.

Fergal McManus is a Partner in the firm of Morgan McManus Solicitors and is an Associate of the Irish Taxation Institute since 2003. Fergal practices primarily in the areas of property and commercial law and the associated taxation implications.

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Introduction

This booklet will explain...

Section 1: some **general terms and procedures** relating to the passing on of property following a death

Section 2: what the deceased's **personal representatives** have to do about –

- Settling any outstanding tax matters up to the date of death;
- Paying tax(es) on any Income or Capital Gains arising during the period when the estate is being administered.

Section 3: what the **beneficiaries** of the deceased's estate have to do if any Inheritance Tax is payable.

Section 4: the special tax exemptions and reliefs that apply to **surviving spouses**.

Section 5: if there are **trustees** appointed under the deceased's will, what they have to do about Income Tax, Capital Gains Tax and Discretionary Trust Tax.

Section 1: How does a person's property pass on their death?

Before looking at the tax consequences arising on a death (sections 2-5), it might be helpful to look briefly at some key terms, at the ways in which property passes on a death to the beneficiaries and at certain procedures that must be gone through before assets are handed over to the beneficiaries.

1.1 What is an "Estate"?

A deceased's estate consists of whatever assets (e.g. bank accounts, stocks and shares, house, land, livestock, jewellery, car, etc.) can be passed on to beneficiaries following the deceased's death.

1.2 How does the estate pass on to the beneficiaries?

The assets which make up the deceased's estate can pass on death in a number of ways. Assets left by will pass to the beneficiaries in accordance with the terms of the will. If there is no will (a situation known as intestacy), assets that would otherwise have passed by will pass instead under special rules laid down by law. In addition (as illustrated at 1.2.2), assets can also pass outside of the will or intestacy.

1.2.1 What type of assets pass under a will or intestacy?

- Assets owned in the deceased's sole name.
- Assets owned by the deceased but placed in the name of another person for convenience or some similar reason.
- Assets placed by the deceased in the joint names of the deceased and another person *without the intention* of benefiting that other person.

1.2.2 What type of assets pass outside a will or intestacy?

- Assets passing by nomination, e.g. the deceased may have instructed An Post to pay saving certificates on his or her death to a particular person called the nominee.
- Death benefits passing under a life insurance policy or pension scheme where the beneficiaries are particular family members named in the policy or scheme.
- Assets passing in which the deceased had an interest for his or her life only.
- Assets placed by the deceased in the joint names of the deceased and another person *with the intention* of benefiting that other person on the deceased's death.

1.3 What is a Personal Representative?

The **Personal Representative** is the person who is responsible for finalizing the deceased's affairs. He or she must, within a reasonable time, collect the assets passing under the **will** or **intestacy**, pay any debts and distribute the surplus assets to the beneficiaries entitled to them.

If there is a will, it is likely that the Personal Representative has been appointed by being named in the will as its **executor** and has taken on the responsibility for that reason. If there is an intestacy (no will), the Personal Representative will probably have taken on the responsibility simply because he or she is the deceased's spouse or one of the next-

of-kin. A Personal Representative who has not been appointed by will is known as an **administrator**.

1.4 What is a Beneficiary?

A **Beneficiary** is a person who inherits either the whole or part of the deceased's estate whether passing under the will or intestacy or outside of the will or intestacy.

1.5 What is a Trustee?

Instead of providing for property to be given directly to the beneficiary, the deceased's will may provide that, for a specified period, the property is to be held on trust on behalf of the beneficiary by **trustees** named in the will. Such trusts may arise because the beneficiary concerned is very young, or because the deceased wishes the property to be held for the benefit of one person for life and, on the death of that person, to be transferred to another beneficiary. The trustees will take over the management of the trust property only after the estate has been administered by the personal representative. The trust will then continue until the time specified in the will for the ultimate handing over of the property to the beneficiary identified in the trust.

Note: The same person can have more than role; for example, a Personal Representative can also be a Beneficiary.

1.6 What must happen before assets are handed over to the beneficiaries?

Before assets are handed over to the beneficiaries certain procedures must be gone through. Broadly, these are as follows:

1.6.1 How do assets pass outside of a will or intestacy?

In the case of an asset passing outside of the will or intestacy, production of a death certificate by the beneficiary is often all that is required to establish the beneficiary's entitlement to receive the asset in question.

1.6.2 How do assets pass under a will or intestacy?

In order to get legal confirmation of his or her appointment, the Personal Representative must apply to the **Probate Office** of the High Court for a document known as a **Grant of Representation**. The Grant of Representation acts as an assurance to financial institutions (e.g. banks, building societies, credit unions, etc.) and to others that they can safely place the deceased's assets in the hands of the person named as Personal Representative in the grant. The Grant of Representation is also known as a **Grant of Probate** (where there is a will) or **Letters of Administration** (where there is no will).

A solicitor acting on behalf of the Personal Representative will normally make the application for the Grant of Representation. In straightforward cases, it may be possible to make a **personal application** for the grant through the Personal Application Section of the Probate Office.

1.6.3 What are the procedures relating to money held in joint names?

In the absence of a letter of clearance from the Revenue Commissioners, banks, building societies and other financial institutions are prohibited by law from releasing monies (other than current accounts) lodged or deposited in the joint names of the deceased and another person or persons. This applies if, at the date of death, the total of all the amounts standing with the institution in the joint names of the deceased and that other person or persons exceeds £31,750. It does not apply, however, to monies which have only been held in the joint names of the deceased and his or her surviving spouse. Applications for letters of clearance for production to financial institutions should be made to the deceased's Revenue office.

Section 2: What should a Personal Representative do about tax when somebody dies?

In summary, this is what you, or your solicitor, should do about tax - and when it should be done.

What should be done	When
Notify the deceased's Revenue office of the death (2.1)	As soon as possible after death
Sort out any outstanding tax issues (e.g. file outstanding Tax Returns) up to the date of death (2.2)	As soon as possible after death
Make sure tax is paid on any income or capital gains arising during the period when the estate is being administered (2.4)	During the administration period

Morgan McManus Solicitors are happy to undertake the above steps on your behalf.

You should be aware that, in addition, the personal representative has secondary liability for the payment of any Inheritance Tax due by the beneficiaries in respect of the benefits they take under the will or intestacy. This means that if a beneficiary should fail to pay, the personal representative will have to do so. At Morgan McManus Solicitors, we ensure that the Beneficiary's tax affairs are dealt with in the course of administration of the Estate to protect our client, the Personal Representatives, from such secondary liability.

2.1 Should I notify the Revenue office?

The deceased's Revenue office should be advised as soon as possible of the date of death and the name and address of the personal representative or their solicitor. This will ensure that correspondence will be addressed to the personal representative or their solicitor until such time as the administration of the estate is finalised.

2.2 Do I need to sort out the deceased's pre-death affairs?

As personal representative, you are responsible for settling any outstanding tax matters for the period up to the date of death. Depending on the circumstances, you may need to pay additional taxes or claim a repayment.

Remember that:

- If you distribute the estate without paying any outstanding tax liabilities, you may have to pay the tax out of your own pocket.
- If you fail to claim a tax rebate due to the estate, you may have to make good the loss to the estate.

If the deceased was self-employed, you will most likely get the deceased's accountant to file any outstanding Income Tax returns and business accounts with the deceased's Revenue office. As well as Income Tax, you will also need to ensure that any outstanding VAT, employer's PAYE/PRSI, or other taxes in respect of the period up to the date of death are fully paid.

If the deceased was an employee, there may be a PAYE tax rebate due, as the deceased's standard rate band and tax credits for the year of death may not have been fully used up. The deceased's employer will send Form P45 to the Revenue office which dealt with the deceased's tax affairs. Any tax rebate will form part of the deceased's estate. As personal representative, it is your responsibility to file any outstanding tax return on behalf of the deceased.

Morgan McManus Solicitors are happy to arrange for the deceased's pre-tax affairs to be brought up to date. In the normal course, an Accountant will deal with these type of "Revenue" or "Income" taxes.

2.3 What is the Inland Revenue Affidavit?

The Inland Revenue Affidavit is an account of the deceased's estate that has to be completed and sworn by the personal representative in order to get a Grant of Representation from the Probate Office. Morgan McManus Solicitors will prepare this Affidavit on your behalf. Before being presented to the Probate Office it must be submitted to the deceased's Revenue office for certification.

2.3.1 What information is looked for in the Affidavit?

The Inland Revenue Affidavit looks for:

- a full account of the deceased's assets and liabilities at the date of death;
- information on, among other things, assets passing outside of the will or intestacy; and
- details of the beneficiaries and of the value of the benefits taken.

To complete the Affidavit, you will need to establish whether the beneficiaries have received any other gifts or inheritances - either from the deceased or from any other person at any time on or after 5 December 1991.

2.3.2 What happens to the Inland Revenue Affidavit?

The deceased's Revenue office having examined the Affidavit will certify it once satisfied that any Inheritance Tax due by the beneficiaries will be paid. A copy of the certified Affidavit will then be returned to us as your solicitors. The certified Affidavit is part of the documentation required by the Probate Office when processing the application for the Grant of Representation.

2.4 Does an Estate have to pay Income and Capital Gains during the administration period?

It may take the personal representative some time to administer the estate during which time income may be earned or capital gains may be made. Broadly the position is as follows.

2.4.1 When does an Estate have to pay Income Tax?

- The personal representative is liable to pay Income Tax at the standard rate on income earned during the administration period. There is no entitlement to tax credits or to any of the reliefs otherwise available to individual taxpayers.
- In certain circumstances, the Revenue office may concessionally agree to treat the beneficiary as succeeding to the inheritance from the date of death. In such circumstances, the beneficiary will take full responsibility for paying Income Tax on the post-death income as if he or she had been entitled to the asset - and the income - from the date of death.

2.4.2 When does an Estate have to pay Capital Gains Tax?

- Death does not give rise to a Capital Gains Tax liability. For example, if the deceased bought shares for €10,000 and they were worth €15,000 at the date of death, the €5,000 capital gain is ignored.
- If the personal representative sells any property during the administration period, there may be a liability to Capital Gains Tax - but only to the extent that the value of the property in question has increased between the date of death and the date of sale. Following on from the example above, if the personal representative sells the shares during the administration period for €18,000, the relevant capital gain is only €3,000.
- No chargeable gain accrues to the personal representative(s) on the transfer to a legatee of an asset bequeathed to him/her by the deceased.

Section 3: What should a Beneficiary do about tax when somebody dies?

In summary, if you have received an inheritance, this is what you or your solicitor should do about Inheritance Tax - and when it should be done.

What should be done	When
Pay any Inheritance Tax due on the benefits received from the deceased (3.1/3.2)	Within 4 months of the Valuation Date (3.4)

3.1 What is Inheritance Tax?

Inheritance Tax is a tax which can arise where a beneficiary receives an inheritance as a result of someone dying. The beneficiary is responsible for paying the tax. As outlined earlier, an inheritance can be taken under a will or intestacy - or in some other way such as, for example, where an asset in the joint names of the deceased and another person is taken, on the death of the deceased, by that other person as survivor.

3.2 How will I know if I have to pay Inheritance Tax?

In this regard a distinction is made between surviving spouses and other beneficiaries.

3.2.1 I am a Surviving Spouse – do I have to pay Inheritance Tax?

If you are a surviving husband or wife taking an inheritance from your deceased spouse, the inheritance, no matter how valuable, is completely exempt and, will not be liable to Inheritance Tax.

3.2.2 Do I have to pay Inheritance Tax?

In the case of beneficiaries (other than a spouse), whether or not Inheritance Tax may be payable on your inheritance depends on whether:

- the total value of all gifts and inheritances - received by you - the beneficiary
- from the deceased and from anybody else to whom the same group threshold applies
- in the period from 5 December 1991 up to (and including) the date of the inheritance exceeds a tax-free element called the "tax-free amount".

Appendix B shows you how to work out the tax-free amount.

3.3 What rates of Inheritance Tax apply?

The following rates of Inheritance Tax apply for gifts and inheritances taken on or after 20 November 2008.

Up to the 'tax-free" amount	Nil
Remainder	22%

Examples of how to calculate this tax are given in Appendix C.

3.4 When do I have to pay the tax?

You have to pay the tax within 4 months of a date known as the Valuation Date. The Valuation Date is the date at which the assets are valued for Inheritance Tax purposes. The Valuation Date for assets passing under the will or intestacy is usually the date on which the Grant of Representation issues from the Probate Office or District Probate Registry. The law surrounding the concept of Valuation Date can be quite complex and can be enormously significant in terms its tax implications. If assets are passing outside of the will or intestacy, the Valuation Date will normally be the deceased's date of death.

3.5 How do I pay the tax?

You should complete an Inheritance Tax Self-Assessment Return and send it with the tax to the deceased's Revenue office. The solicitor for the Personal Representative will often attend to this on your behalf, but the primary responsibility rests on you, the Beneficiary. You should be aware that you will be charged interest from the valuation date (see 3.4) if you are late paying the tax.

3.6 Are there any reliefs/exemptions from Inheritance Tax?

In addition to the exemption for a surviving spouse, there are a number of other important exemptions and reliefs available, including reliefs for agricultural and business property and exemption for certain dwelling-houses. Where agricultural or business relief applies, the market value of the property for Inheritance Tax purposes is substantially reduced by 90%. Where the dwelling-house exemption applies, the market value of the dwelling-house is completely exempt. Morgan McManus Solicitors will be happy to advise in respect of these reliefs / exemptions.

3.7 What assets are liable to Irish Inheritance Tax?

An asset will be liable to Irish inheritance tax:

- (i) if the asset is located in Ireland; or
- (ii) if the asset is located abroad, and the deceased or beneficiary is resident or ordinarily resident in Ireland.

3.8 Will assets in Northern Ireland be liable to Irish Inheritance Tax?

- Morgan McManus happy to advise
- See our Booklet on Cross Border Estates, which is available at www.morganmcmanus.com

3.9 Is tax planning possible after the date of death?

The beneficiary may, in certain circumstances, be able to organise their affairs to qualify for Agricultural Relief. Tax planning is best done while the deceased person was still alive and at the time the will was being made.

Section 4: What should a Surviving Husband or Wife do about tax when somebody dies?

This section gives an outline of the main tax exemptions and reliefs specifically for surviving spouses.

4.1 What are the main tax exemptions and reliefs for surviving spouses?

In summary these are:

- a total exemption from Inheritance Tax for benefits taken by the surviving spouse, no matter what the amount;
- the special Income Tax rules that apply for the year of death;
- if you have dependent children, the Widowed Parent tax credit available for the 5 years after death.

The last two items are best dealt with either directly through your local tax office or by an Accountant. Morgan McManus will be happy to recommend an Accountant to you.

Note: As well as being a surviving spouse you may be a personal representative, a beneficiary, or a trustee of your late spouse's estate, in which case you should consult sections 2, 3 or 5 of this booklet as appropriate.

REMEMBER

Let the Revenue office know of your spouse's death as soon as you can. They will ask you for certain information - including the date of death, your late spouse's Personal Public Service (PPS) number and the name of the personal representative. They will also need to make sure you are given your proper tax-credits and standard rate band. To do this they will want to know if you have any dependent children and if you will be receiving a pension (either from Social Welfare or from your late spouse's employer). If you haven't got all the information when you are contacting the Revenue office, advise them of the details you do know. The Revenue office will request any outstanding details in due course.

Section 5: What should a Trustee do about tax when somebody dies?

In summary this is what you or your solicitor should do about tax - and when it should be done

What should be done	When
Ensure that the deceased's Revenue office knows about the trust (5.1)	As soon as you take over the trust property
Make sure that tax is paid on any income or capital gains arising and file Tax Returns during the period when the trust is being administered (5.2/5.3)	By the appropriate dates
Pay any Capital Gains Tax arising on the appointment of trust assets to the	By the appropriate dates

beneficiaries	
If there is a Discretionary Trust, pay Discretionary Trust Tax as follows: <ul style="list-style-type: none"> the immediate once-off 6% charge (5.4) the annual 1 % charge (5.4) 	<ul style="list-style-type: none"> Within 4 months of the Valuation Date By 5th July each year (during the lifetime of the trust)

Morgan McManus Solicitors are happy to undertake the above steps on your behalf.

You should be aware that, in addition, the trustees have secondary liability for the payment of any Inheritance Tax due by a beneficiary as a result of the appointment of trust property to him or her. This means that if a beneficiary should fail to pay, the trustees will have to do so.

5.1 Notifying the Revenue Office

On taking over from the personal representative assets of which you were appointed trustee by the deceased's will, you or your solicitor should inform the deceased's Revenue office about the trust in case the personal representative has not already done so.

5.2 Paying Income Tax

The income generated by assets left by the deceased on trust is liable to Income Tax at the standard rate. Beneficiaries are taxed on income which is passed on to them and are entitled to a credit for the Income Tax paid by the Trust in respect of this income. Trustees should return income and charges. Morgan McManus Solicitors are happy to recommend an Accountant who will undertake these tax returns on your behalf. Where income is not distributed by the trustees within 18 months of the end of the year of assessment there is a surcharge at the rate of 20% on this income.

5.3 Paying Capital Gains Tax

No Capital Gains Tax arises when assets left by the deceased on trust are transferred by the personal representative to the trustees. However, a subsequent sale of these assets by the trustees or their appointment to a beneficiary may give rise to a Capital Gains Tax liability. The tax is calculated by reference to the increase in the value of the asset between the date of death and the date of sale or appointment.

5.4 Paying Discretionary Trust Tax

When the trust is a discretionary trust, i.e. where there is no immediate benefit under the trust, the trust assets are subject to the following Discretionary Trust Tax charges during the lifetime of the trust:

- an immediate once-off 6% charge,
- an annual 1% charge arising on 5th April* in each year (to be paid by 5th July the same year). (* Other than the 5th April occurring in the twelve months immediately following the date on which the 6% charge arose.)

However, where the deceased left young children as prospective beneficiaries of the trust, the 6% and 1% charges will not arise during the lifetime of the trust while the youngest of these children remains under the age of 21. There are a number of exemptions from the Discretionary Trust Tax charges - trusts set up exclusively for persons with certain disabilities are exempt as are trusts set up for charities.

Appendices

A Indexed tax-free amounts and exemption thresholds

B Calculation of the tax-free amount

C Examples of Inheritance Tax calculations

Appendix A: Indexed Tax Free Amounts and Exemption Thresholds

TABLE 1 – INHERITANCE TAX			
Indexed Tax-Free Amounts*			
	RELATIONSHIP OF PERSON TAKING THE BENEFIT TO THE PERSON WHO PROVIDED THE BENEFIT		
Year of the Inheritance (usually year of death of the deceased)	Group A Child; minor child (i.e. under 18) of a deceased child	Group B Lineal ancestor / descendant (e.g. parent [^] , grandparent, grandchild); brother / sister; child of brother / sister	Group C All others (excluding spouses)
2009	€542,544	€54,254	€27,127
2008	€521,208	€52,121	26,060
2007	€496,824	€49,682	24,841
2006	€478,155	€47,815	23,908
2005	€466,275	€46,673	23,336
2004	€456,438	€45,644	22,822
2003	€441,198	€44,120	22,060
2002	€422,148	€42,215	21,108
2001	€402,253	€40,225	20,113
2000	€380,921	€39,092	19,046
1999	€244,932	€32.657	16,328
1998	€239,218	€31,895	15,947

*Indexation is by reference to the consumer price index

[^]Exception: A parent qualifies for the GROUP A tax-free amount when he/she takes an immediate, absolute inheritance on the death of a child.

Note: For inheritances taken in future years, indexed exemption thresholds and tax-free amounts will be available at www.revenue.ie or from the deceased's Revenue office.

Appendix B: How do I work out the Tax-Free Amount on an Inheritance?

This appendix/section shows how to work out the tax-free amount referred to in 3.2.2. Essentially two situations are possible.

(i) Where no other benefits have been taken by the beneficiary

This is a very straightforward situation. It arises where the beneficiary takes an inheritance and no other gifts or inheritances have been taken by the beneficiary from the deceased or any other person from 5 December 1991 onwards. In these cases, the tax-free amount that applies to the inheritance is arrived at by a simple application of Table I.

In the Table, beneficiaries are divided into three groups, A, B and C, according to their relationship to the person who provided the inheritance. The Table shows a separate tax-free amount for each of the three groups of relationship and that the amounts vary according to the year in which the inheritance is taken. Opposite the year in which the inheritance was taken, you will see three tax-free amounts, one for relationships in group A, one for those in group B and one for those in group C. The tax-free amount you require is the one that is under the appropriate relationship heading.

Example 1

For instance, provided no other gift or inheritance is involved since 5th December 1991, a quick glance at the table will show that the tax-free amount for an inheritance taken by a child from a parent in 2009 is €542,544.

See Example 1 in Appendix C for calculation of tax payable.

(ii) Where other benefits have been taken by the beneficiary but they are not within the same group threshold

This situation is similar to that outlined above. It arises where the prior gift/inheritance, although taken on or after 5 December 1991, had not the same group threshold as the current inheritance.

A separate threshold applies for each group and prior gifts/inheritances to which a different threshold applies are not taken into account when calculating the tax on the current inheritance.

Example 2

Anne takes the following benefits:

* Gift of €60,000 from her brother in 2000,

* Inheritance of €600,000 from her father in 2008.

The tax on the inheritance is calculated using the Group A threshold and the prior gift is not taken into account as it was not in the same group threshold

See Example 2 in Appendix C for calculation of tax payable.

(iii) Where other benefits including benefits to which the same group threshold apply have been taken by the beneficiary

It arises where the prior gift/inheritance, taken on or after 5 December 1991, had the same group threshold as the current inheritance. The method of calculating the tax-free amount for the group of benefits in this situation is set out in the following example.

Example 3

Assume John takes the following benefits:

- * A gift of €30,000 from his aunt (group B) in 1992,
- * An inheritance of €28,000 from his uncle (group B) in 1993,
- * A gift of €20,000 from his cousin (group C) in 1995,
- * An inheritance of €100,000 from his father (group A) in 1998,
- * An inheritance of €30,000 from his sister (group B) in 2009.

What tax free amount applies to the 2009 inheritance?

Only the gifts / inheritances in the same group are taken into account for the purpose of calculating the tax payable on the latest inheritance. The total taxable value of all gifts / inheritances to which the group B threshold applies is €88,000 (i.e. €30,000 + €28,000 + €30,000).

The relevant tax-free amount to be used for this inheritance in the Table is the group B amount in 2009, i.e. €54,254. See Appendix A.

As the tax-free amount (€54,254) for the group B benefits is exceeded by the total value (€80,000) of the benefits in the group it is necessary at this point to do a tax calculation to establish the Inheritance Tax liability, if any. This is illustrated at Example 3 in Appendix C.

Appendix C: How do I calculate Inheritance Tax?

The rates of Inheritance Tax are as follows:

Up to the “tax-free” amount	Nil
Remainder	22%

Example 1 - Where no other benefits have been taken by the beneficiary

Calculating the tax due is straightforward when the inheritance was the only benefit taken by the beneficiary in the period from 5 December 1991 onwards. Assume that the inheritance is an inheritance of €600,000 taken in 2009 from a parent (group A). It will be clear from Table I page 17 that the tax-free amount for a group A inheritance taken in 2009 is €542,544. In this situation, the tax is calculated as follows (using the above rates):

Tax on the tax-free amount of €542,544	Nil
Tax on balance of €57,456 at 22%	€12,640
Total tax due (on €600,000)	€12,640

Example 2 - Where other benefits have been taken by the beneficiary but they are not within the same group threshold

The prior benefit is ignored and tax is calculated on the same basis as example 1 above.

Example 3 - Where other benefits including benefits to which the same group threshold applies have been taken by the beneficiary

The following are the steps involved in calculating the tax due on the inheritance where, on or after 5 December 1991, the beneficiary has taken prior gifts/inheritances to which the same group threshold applies:

Step 1: Calculate the tax on the combined value of all benefits within the group - i.e. the current inheritance plus the prior gifts/inheritances,

Step 2: Calculate the tax on the prior benefits only within the group (excluding the current inheritance), and

Step 3: Subtract the result at (b) from the result at (a) - the difference is the tax due on the current inheritance.

Applying those steps to Example 2 in Appendix B, the Inheritance Tax on the inheritance worth €30,000 in 2009 is calculated as follows:

Step 1 Calculate tax on the combined value (€88,000) of all the benefits taking account of the tax-free amount (€54,254) for group B benefits:

Tax on the tax-free amount of €54,254	Nil
Tax on balance of €33,746 at 22%	€7,424
Total tax (on €88,000)	€7,424

Step 2 Calculate the tax on the combined value (€58,000) of the previous benefits only (ignoring the €30,000 in 2009), taking account of the tax-free amount (€54,254) for group B benefits in 2009:

Tax on the tax-free amount of €54,254	Nil
Tax on balance of €3,746 at 22%	€824
Total tax (on €58,000)	€824

Step 3 Subtract €824 (the total tax on €58,000 according to step 2) from €7,424 (the total tax on €88,000 accordingly to step 1). The difference, €6,600, is the amount of tax due on the 2009 inheritance of €30,000.