



INHERITANCE TAX ANDALUCIA 2018 PROPOSAL FOR NEW SIGNIFICANT EXEMPTIONS

*The background
to inheritance tax
in Spain*

*New personal
exemptions of 1€
million from 2018*



After almost 40 years of uninterrupted socialist government, the PSOE finally lost its majority in Andalusia in 2015, although it was able to hang on to power in coalition with Ciudadanos, the new centre right party of Spain.

In return for approving the 2018 budget and propping up the minority government, Ciudadanos has just forced the PSOE to accept a substantial change in ISD.

The Impuesto sobre Sucesiones y Donaciones (ISD), Spain's inheritance and gift tax, dates back to a 1987 law that replaced similar law of 1967. Since 1987, apart from some relatively insignificant tweaks, the law has remained largely untouched, including the tax rates and bands. Inflation has reduced the real value of money by 180% since 1987so, over the years, the real cost of ISD has doubled.

Because the authorities often assess tax on the theoretical value of a property and because properties have been difficult to sell in recent years, many families have simply had to give up inheritances because they can't pay the tax.

In recent years the tax has been fully devolved to the Autonomous Communities (Andalusia, Cataluña, Madrid etc), which has seen this already unfair tax become ridiculous because regional variations are now extreme. For example: Madrid has virtually eliminated the tax by providing a 99% exemption for families but The PSOE in Andalusia, boasting its left wing credentials, actually increased tax rates for the wealthy. They improved exemptions for modest inheritances between family members but the rules were so badly drafted that they caused even greater unfairness.

The press releases published on 20 September 2017 announce that the general exemption to ISD will be increased to 1€ million per person. The general exemption for inheritances between close family is currently only 15,956.87€.

It is important to know that ISD is payable by the beneficiaries of inheritances, not the estate of the deceased as happens in the UK and other countries. Consequently, in the case of Wills that are designed to spread assets between several family members, each family member will be entitled to their own 1€ million exemption.

The devil is in the detail and we must await the release of the text of the new exemption before celebrating too much. We have to make sure that there are no snags that the politicians sneak into the text to limit the exemption unfairly, as has happened in the past.

An example of such political trickery is that Andalusia currently boasts an exemption for close family inheritances of up to 250,000€ when the beneficiary's pre-existing wealth is less than 402,678.11€. However, exceeding either of these limits by just one Cent disqualifies the beneficiary and results in only 15,956.87€ being exempt.

Caution aside, this could turn out to be very good news indeed for people wanting to invest and live in Andalusia as ISD has always been a significant disincentive. There is also talk about getting rid of Wealth tax, which would make Spain a truly attractive country for new residents.

For a guide to the current ISD system see: <https://www.spenceclarke.com/pdf/17.pdf>