

## **Computation of tax - aggregation and indexation**

### **FA 1984 Table of rates**

1.1 FA 1984 s 111 introduced a new method of computing the tax payable on taxable gifts and taxable inheritances. It amended the Second Schedule to CATA 1976 and provides that, in relation to gifts and inheritances taken on or after the 26 March 1984, there is only one Table of rates tax as follows:

Portion of value	Rate of tax per cent
The threshold amount	Nil
The next £10,000	20
The next £40,000	30
The next £50,000	35
The next £50,000	40
The next £50,000	45
The balance	55

### **Aggregation**

1.2 The taxable values of all taxable gifts and taxable inheritances taken on or after the 2 June 1982, by a beneficiary (the donee or successor) from any disponer are now aggregated to determine the amount of tax payable on the latest taxable gift or taxable inheritance. The tax payable on the taxable value of the latest taxable gift or taxable inheritance taken by a beneficiary on or after 26 March 1984, is:

(a) the tax computed under the Table in 1.1 above on the aggregate of the taxable values of that latest taxable gift or taxable inheritance plus the taxable values of all taxable gifts and taxable inheritances (if any) previously taken by that beneficiary from any source on or after 2 June 1982; less (if any)

(b) the tax computed under the Table in 1.1 above on the aggregate of the taxable values of all taxable gifts and taxable inheritances taken by that beneficiary from any source on or after 2 June 1982, but excluding the taxable value of that latest taxable gift or taxable inheritance.

### **Threshold amount**

1.3 In assessing tax on either of the aggregates at (a) or (b) in 1.2 above, it is essential to know what the threshold amount is, that is, the amount of the aggregate on which tax is charged at a nil rate. This threshold amount means the greatest of the revised class thresholds that apply in relation to all of the taxable gifts and taxable inheritances included in any aggregate.

### **Class threshold**

1.4 Each taxable gift or taxable inheritance included in any aggregate has a class threshold. This class threshold is:

(a) £150,000, where the donee or successor is, on the day the gift or inheritance is taken, the spouse, child, or minor child of a deceased child, of the disponer;

(b) £20,000, where the donee or successor is, on the day the gift or inheritance is taken, a lineal ancestor, a lineal descendant (other than a child, or a minor child of a deceased child), a brother, a sister, or a child of a brother or of a sister, of the disponer;

(c) £10,000, where the donee or successor, on the day the gift or inheritance is taken, is not entitled to either class threshold of £150,000 or £20,000.

### **Revised class threshold**

1.5 Each taxable gift or taxable inheritance included in any aggregate has in turn a revised class threshold. This revised class threshold means the lesser of:

(a) the class threshold that applies to that taxable gift or taxable inheritance, and

(b) the total of the taxable values of all the taxable gifts and taxable inheritances to which that class threshold applies and which are included in the aggregate.

However, a proviso to the definition of revised class threshold ensures that, where the revised class threshold so ascertained is less than the smallest of the class thresholds that apply in relation to all of

the taxable gifts and taxable inheritances included in that aggregate, the revised class threshold shall be that smallest class threshold.

**Example**

1.6 In 1988, John Murphy takes an inheritance of £30,000 from his uncle. As this is the first taxable gift or taxable inheritance taken by the beneficiary since 2 June 1982, the aggregate at (a) in 1.2 above is £30,000 and the aggregate at (b) in 1.2 above is nil. The threshold amount in relation to the aggregate of £30,000 is ascertained as follows -

Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6
Taxable value of each taxable benefit in date order	Class threshold of each taxable benefit	Total of the taxable values in Col. 1 to which the class threshold in Col. 2 applies	Lesser of Col. 2 and Col. 3	Smallest class threshold in Col. 2	Revised class threshold ie, the greater of Col. 4 and Col 5
£	£	£	£	£	£
30,000	20,000	30,000	20,000	20,000	20,000

In Column 6, £20,000 is the greatest (and only) revised class threshold that applies in relation to the aggregate of £30,000, and so £20,000 is the threshold amount. Tax is assessed on £30,000 as follows:

	£
Tax on £20,000 (threshold amount)	Nil
20% of £10,000	2,000
Tax on £30,000	2,000

**Example**

1.7 In 1989, John Murphy takes a further inheritance of £60,000 from this father, making the aggregate at (a) in 1.2 above £90,000. The threshold amount in relation to this aggregate of £90,000 is ascertained as follows:

Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6
Taxable value of each taxable benefit in date order	Class threshold of each taxable benefit	Total of the taxable values in Col. 1 to which the class threshold in Col. 2 applies	Lesser of Col. 2 and Col. 3	Smallest class threshold in Col. 2	Revised class threshold ie, the greater of Col. 4 and Col 5
£	£	£	£	£	£
(a) 30,000	20,000	30,000	20,000	20,000	20,000
(b) 60,000	150,000	60,000	60,000	20,000	20,000

In Column 6, £60,000 is the greatest of the revised class thresholds that apply in relation to all of the taxable inheritances included in the aggregate of £90,000, and so £60,000 is the threshold amount. Tax is assessed on the inheritance of £60,000 by assessing the tax on £90,000 (see (a) in 1.2 above) less the tax on £30,000 (see (b) in 1.2 above) as follows:

	£
Tax on £60,000 (threshold amount)	Nil
20% of £10,000	2,000
30% of £20,000	6,000

Tax on £90,000	8,000
Less	
Tax on £30,000 (see Example in 1.6 above)	2,000
Tax on £60,000	6,000

## 2. FA 1990

### Indexation

2.1 It was provided in the 1990 budget that, in future, the thresholds for capital acquisitions tax will be adjusted each year to take account of inflation and that, for 1990, based on the average annual increase in the consumer price index for 1989, this will result in the class thresholds of £150,000, £20,000 and £10,000 being indexed by 4 per cent to £156,000, £20,800 and £10,400 respectively.

To carry out this proposal, it would not have been sufficient to limit the indexation to the three class thresholds. It has been necessary to draft the legislation (now contained in FA 1990 s 128) so that, in addition to indexing the three class thresholds, the revised class thresholds are also indexed. This has been accomplished by indexing the threshold amounts.

### Example

2.2 In 1988, Brendan O'Neill takes an inheritance of £30,000 from his uncle on which the tax is £2,000 (see example in 1.6 above). In 1990, he takes a further inheritance of £60,000 from his father, making the aggregate at (a) in 1.2 above £90,000. These are the same facts as in the examples in 1.6 and 1.7 above, except that the second inheritance of £60,000 is taken in 1990 when indexation first applies. Under FA 1990, in assessing tax on £60,000, one proceeds as before in the example in 1.7 above and ascertains the threshold amounts in relation to the two aggregates involved of £90,000 and £30,000. However, both the threshold amount of £20,000 (applicable to the earlier aggregate of £30,000) are now indexed by a factor of 1.04, giving threshold amounts of £62,400 and £20,800 respectively. The tax on the £60,000 inheritance taken in 1990 is therefore:

	£
Tax on £62,400	Nil
20% of £10,000	2,000
30% of £17,600	5,280
Tax on £90,000	7,280
Less	
Tax on £20,800	Nil
20% of £9,200	1,840
Tax on £30,000	1,840
Tax on £60,000	5,440

This figure of £5,440, the tax on £60,000, compares with a figure of £6,000 in the example in 1.7 above where no indexation has taken place. It should also be noted that the tax of £1,840 deducted in this example is a notional figure, since £2,000 was actually paid on the earlier inheritance of £30,000.

### Indexation factor

3.1 The effect of FA 1990 s 128, is that, in computing tax on a taxable gift or a taxable inheritance taken in 1990 and subsequent years, the threshold amount in relation to each relevant aggregate is ascertained as heretofore, but that each such threshold amount is multiplied by an indexation factor.

3.2 If the taxable gift or taxable inheritance is taken in 1990, each relevant threshold amount is multiplied by an indexation factor of 1.04, that is, each such threshold amount is increased by 4 per cent. This factor of 1.04 is obtained by dividing 138.9 (the all items consumer price index number for the year 1989, issued by the Central Statistics Office) by 133.5 (the corresponding figure for 1988), and adjusting to the nearest 3rd decimal place.

3.3 If the taxable gift or taxable inheritance is taken in 1991 or subsequent years, the indexation factor will be similarly obtained by dividing, by 133.5, the all items consumer price index number for the

year preceding the year in which that taxable gift or taxable inheritance is taken. The indexation factor for each year will be published by the Revenue Commissioners.