Wealth and succession taxes: Key considerations

With Mike Linter, Global Head of Private Enterprise Tax, Tax & Legal, KPMG International, and Partner, KPMG in the UK; Greg Limb, Global Head of Family Office and Private Client, KPMG International, and Partner, KPMG in the UK; and Camilla Cullinan, Tax Partner at KPMG in Ireland and KPMG's EMA Head of Family Business.

Host

Hello and welcome to the Future of Tax podcast series, the podcast that explores some of the most pressing issues and opportunities facing tax and legal functions in the modern business world. In today's episode, we are joined by Mike Linter, Global Head of Private Enterprise Tax, Tax & Legal, KPMG International, and Partner, KPMG in the UK, who will be leading today's discussion on wealth and succession taxes and the key considerations for private companies. Joining Mike are Greg Limb, Global Head of Family Office and Private Client, KPMG International, and Partner, KPMG in the UK; as well as Camilla Cullinan, Tax Partner at KPMG in Ireland and KPMG's EMA Head of Family Business. Mike, without further ado, over to you.

Mike Linter

Well, Thank you. It's a pleasure to be here. Following recent statements from the OECD and the various elections of 2024, the number of jurisdictions have introduced significant changes on tax policies with regards to wealth, inheritance and succession, which have impacted wealthy individuals and private businesses. Today, we'll discuss these changes with KPMG tax leaders who share insights into the impact these changes have on wealthy individuals and private business owners, and key considerations to help them navigate these changes. Greg and Camilla, could you give us a brief overview, please, of wealth and succession taxes in your market and any recent policy changes?

Greg Limb

Yeah. Thanks, Mike. I guess one of the key changes that we're seeing in the UK, looking at this from a purely from a UK perspective, was under the new Labor government, who were elected in mid 2024 when they had their first fiscal budget event in October 2024, they had announced prior to that that they would see that the tax burden is worse, or the burden on the state and the burden that's coming from tax in the UK would fall on the broadest shoulders. And they've certainly started seeing private business owners as those with the broadest shoulders. And what they introduced in October 2024 are proposals that will take effect in 2026, when private business owners on business successions and transfers from a UK and inheritance tax perspective. Previously, business owners had a 100% relief, which would allow them to pass the business assets down through the generations without triggering any inheritance tax charge. But from 2026, those reliefs will be changed such that the impact will be that those reliefs are reduced by 50% and the effective impact will be that on the transfer of business assets and included in business assets and this includes farmland for those who are agricultural businesses the tax charge will become an effective rate of 20%. So quite an effective and quite hard impact that will come in from those rates. Camilla, I don't know if anything similar has been going on in Ireland?

Camilla Cullinan

Yes. Well, I suppose on the positive side, we don't have wealth tax in Ireland. And like half of the global economies in the past year we went through a general election and there was a concern that should the left-wing parties be successful, that they would introduce a wealth tax that hasn't come to the fore. They do have taxes on succession, both on the donor side and on the beneficiary side. We have CGT on lifetime transfers, no CGT on debt, but from a gift and an inheritance tax perspective, unlike in the UK, that is taxed on the beneficiaries both on a lifetime transfer and on that, and it's based on residence and situs of assets. The main headline tax rate is 33%. Again, there are reliefs for businesses and farms. It's a 90% relief in Ireland, which brings the effective rate down to 3.3%. There are a lot of conditions attached to those reliefs. About just over a year ago, the government introduced a suggested change to the retirement relief on the capital gains tax side of the house. Up until then, there was full relief for businesses transferring from parent to child when there were between the age of 55 and 66, and there was a 3 million limit on the value of the business that would qualify for the relief thereafter. It was announced in late 2023 that from 1st January 2025, the relief could be claimed up until the age of 70, but there was a cap on the value of the relief that could be claimed at 10 million. As you can imagine, there was much consternation and worry about the detrimental effect that this would have on businesses, and the government actually listened and they changed this back and the budget back in late 2024. And now, on 1st January 2025, the age that retirement relief can be claimed is still increased to 70. You get full relief up to 10 million up until the age of 70. If the value of the business is over 10 million, you could claim relief, but there would be a longer clawback period. So that had alleviated some of the concerns that business owners did have on the intergenerational transfer of businesses.

Greg Limb

Yeah and similarly, in the UK, there's also been some changes that will be announced that don't take effect until 2027, involving the transfer and solve of an individual's pension to the next generation prior to, you know, or currently, the position is that if a transfer of a pension happens on the death of an individual who created that pension during their lifetime there would be no inheritance tax payable. If that pension was transferred down to the next generation, there would be tax if they withdrew money from the pension, but it wouldn't be included in their estate for calculating the inheritance tax in the UK. But they have plans to introduce to change that with effect from 2027. So there's certainly a direction of travel, I would say looking at things from the UK perspective where they are looking at wealth and inherited wealth that often business owners utilize, be it storing up that wealth in the business or storing up in vehicles outside of the business, which are funded from assets within the business i.e. a pension. For that to be something that will become and you see an increased tax burden on it as we move forward.

Mike Linter

Thank you Greg and Camilla. Greg turning now to a global standpoint, are you seeing any emerging themes with regards to wealth taxes from our global network and from the work you've been doing with those teams?

Greg Limb

Yeah, it's quite interesting. I mean, you know, we've seen over the course of the last few years this call for increased wealth taxes or, you know, as you mentioned at the very beginning the OECD is even looking into wealth taxes as being an area for that. And it's a very emotive subject because many countries tax wealth in in different ways. So yeah, we see countries which have an out and out wealth tax and, you know, the one that's often seen as one of the biggest there is Switzerland, which has a wealth tax for residents tax generally in a very low percentage terms. And then often other people say that there should be a tax on the wealthy. And certainly this was something that was brought in as a point and often debated during the US 2024 elections. Now, clearly, with president elect Trump as we speak, there are many believing that he will actually be quite generous with some of the wealth taxes that exist there. So certainly, in terms of the inheritance and estate taxes in the US, many are expecting him to extend some of the generous reliefs that thought could actually be shut down if we'd have seen a Democratic president being elected. But that's one thing there.

We've also seen countries such as South Africa, where it's often been thought that there could be a wealth tax introduced. There's actually probably a call that that won't happen because the South African Revenue Services have published data that's shown with people leaving over the course of the last 4 or 5 years. That has actually cost the South African economy somewhere in the region of 3 billion rand in lost taxes to the exchequer, so we are seeing mixed messages.

We're seeing calls for wealth taxes to be introduced, but we're equally seeing measures being brought in where actually it's been actually relaxations and potential relaxations. Or actually when governments are looking at these actually not buying in to the potential for that to be there. And I think this is probably best. The best example for one of these is given is by the Norway example. So Norway, 3 or 4 years ago introduced or reintroduced a wealth tax of 1.1% on its citizens. And data suggests that since that wealth tax was introduced, local residents and there's at least 80 of these wealthy individuals and families that have now left Norway, and they estimate that the wealth that has left Norway from these 80 families is somewhere in the region of US dollars when I'm talking here, $54 billion worth of personal wealth, that is left. And what you've got is actually what would have been hoped by the Norwegian government of $146 million of extra revenue raised is now pointing to revenue leaving the Norwegian exchequer of somewhere in the region of $500 million plus. So I think there is a very nuanced argument that's going out there that, yeah, there is a call for these for these wealth taxes to be introduced but empirically, when you look at some of the data that goes behind it, it's not actually producing the wealth that's there because there's lots of other wealth taxes that these individuals are facing, be it a capital gains tax on the disposal of an asset, be it a gift tax on the transfers of an asset, or be it an estate tax on the death of an individual. So I think it's a very nuanced argument where you're seeing the call for this to happen, but not a lot of action taking place to bring anything in there Mike.

Mike Linter

Thanks Greg. You make some very good points. I mean, we do see a growing consensus amongst the G20, but there isn't universal consensus, of course, in the US elections and obviously the election of Donald Trump has actually changed the horizon. There are a number of other points as well. And I think you've alluded to them as well is that one is around fairness, really, and consistency and how do you apply this globally? The other point is wealth, of course. The numbers we mentioned is 2% of wealth each year. But obviously a number of our clients have illiquid wealth as well, actually tied up in assets. And of course how do you value that? So I think not only do you have a political dynamic here, but you've also got an issue around fairness in terms of how that is actually leveraged potentially on individuals or family offices. So I think it's easy to say, I think much harder to input. But I think there's an overarching point as well. On many of these podcasts in the past, we've actually talked around how important private businesses and multi-generational wealth are actually important to our economies across our network. And I think we've always said that there is another way of looking at this, by actually encouraging those businesses and those families to reinvest in those countries rather than actually look to mitigate wealth taxes. I think that could be a better answer for governments as well. And I guess that that's one of the things that we hear that the Republicans are looking at, and maybe actually changing the nature of taxation in the US. Is that correct?

Greg Limb

Yes, it is. And that's one of the things that we're seeing coming through. And one of the big campaign pieces that president elect Trump actually put forward was to actually increase and or introduce more tariffs. And seeing that as a way of building taxation and taking the tax burden away from the broader tax base within the country and raising revenue that way. And yeah, you could start to think and wonder, is that a way in which President Trump was thinking, potentially, of changing the dial when he talked about this, when he was, when he was campaigning about removing the citizenship-based element of US taxes. And you could introduce, yeah, tariffs as a way of compensating the US Treasury with that base. So I think lots of things have been looked at and considered. And I think it's showing that, yeah, perhaps some of the more conventional ways in which wealth and business owners have been taxed might change as we move forward. And we, you know, and we really get accustomed to a more progressive and modern tax system as we're seeing is happening in the corporate tax world. It's probably a sign that something may happen in the next 5 to 10 years around the wealth of business owners and individuals.

Mike Linter

Thanks, Greg. Camilla, in recent years, there's been significant discussions around the great wealth transfer, which anticipates the largest intergenerational shift in financial assets from one generation to another. What impact, if any, could these tax policy changes potentially have on client succession strategies with regards to tax planning for business and wealth transfers?

Camilla Cullinan

Yeah, Mike, I think this could have a huge impact. I mean, going back to the suggested change on retirement with some capital gains tax that was going to be introduced in Ireland, and looking at policies going forward on increased taxation on succession, like many business owners, maybe reluctant to jeopardize the sustainability of their businesses by burdening them with tax liabilities on a lifetime transfer. And those affected businesses then might well be deprived of the injection of entrepreneurial energy and vision that arises on the intergenerational transfer of a business. Also, business owners, it may cause them to consider selling where they would have previously have sought to develop and grow the business. So I think it's going to make a lot of business owners relook at their tax planning and their succession strategies. And I think with that in mind, it will be an ongoing review of structures and reliefs and valuations. And what can they do as opposed to having a plan? I think it's a constantly changing environment that we're in at the moment.

Mike Linter

No, I agree, I guess it's interesting actually, when we're referring to the importance of private businesses and the strength of those patient capital businesses. You know, the worst thing for any of these businesses to do would be to react to proposed, wealth changes that would actually potentially weaken the balance sheets of those businesses and countries. Really, I guess, you know.

Camilla Cullinan

Yes and you referred to it earlier, Mike? I mean, a lot of the wealth of these business owners is actually in the business itself. So to fund any increased wealth taxes or succession taxes, there's going to have to be wealth taken out of the business to do that, so that, as you say, weakens the balance sheet. And also there's just increased taxation on getting the money out of the businesses, which is an impediment in itself to actually transferring the business.

Mike Linter

Great. Thank you. And, Greg, what steps do you think private companies should take into consideration to navigate these changes? What are you seeing your clients do now and what are you recommending they do?

Greg Limb

The position is how it has always been. It's always plan and prepare in terms of where they have a strategy. But don't just leave the strategy. I think that once you've looked at the strategy, think that the strategy is done, it should always be refreshed, revisited, revised. Also take into account what happens as people and families move around the globe. We're seeing more and more families and businesses that are there having a wider geographic footprint. Be it shareholders in different jurisdictions, be it family shareholders who moved to other territories or countries. So always, always, always plan as best you can. Plan for the current circumstances. Plan for the certain circumstances that exist around the taxation policy that's there, but always have a view that it's never a final plan. It will always be something that needs to be contemporaneously looked at and reviewed.

Mike Linter

Thanks Greg. Camilla anything to add?

Camilla Cullinan

Yeah, I think that's the main message. It's just constant review, knowing what's going on. It's not just in your home country, as family become more and mobile, but you need to look at various tax policies in different countries. And often there may not be an exact crossover because for example, in Ireland we tax the beneficiary. In the UK it's the estate of the deceased person that’s taxed. So all those complications and interactions need to be reviewed.

Host

Great. Thanks Mike, Greg and Camilla. And that brings us to the end of this podcast episode, exploring some key considerations around wealth and succession taxes. Thank you all for listening, and please join us again next time and email us with any questions you have about today's episode at tax@kpmg.com. We would also love to hear from you with any suggestions you have for future episodes.

Thanks for listening.

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