Tax Returns during Estate Administration

If an individual previously submitted tax returns to HMRC during their lifetime, in death they will need to:

- Report taxable income in the tax year of death, from the start of the tax year up to the date of death
- Prepare a tax return to report income and gains realised from the date of death until the end of the tax year or the point where the estate is distributed.

HMRC have a service called "Tell Us Once" to inform them of a taxpayer's death which is designed to be a one stop notification service: https://www.gov.uk/after-a-death/organisations-you-need-to-contact-and-tell-us-once

How is this calculated?

Taxable income is calculated and assessed in the same way during the year of death as it would be in a normal tax year. However, there are different rules relating to annual allowances, such as the annual allowance for capital gains tax. The income will either be taxed on the individual during the point in the tax year before death. After death, the income is assessable on the personal representatives.

During the time that the taxpayer in question was alive, he or she was entitled to a personal allowance each tax year, which is £12,570 from 6th April 2021. Personal allowances are not available to personal representatives after the date of death, and the personal savings allowance and dividend allowance are also not available.

Whether or not the deceased died intestate or with a valid will can also create issues with taxation.

Income sources relevant for the tax returns:

- **Pensions**

  Pension income is assessed by looking at the amount of income that has accrued during the tax year. This is because pension can be subject to accruals of income. Usually, statements will be issued by private pension providers detailing income accrued up to the date of death and beyond, so that the correct amounts can be reported for each period regardless of when the actual pension payments were made.

- **Employment income**

  This income is taxable when it is received. Therefore, if an individual dies before a final payment is made this payment will then be taxable on the personal representatives of the

estate. Usually, there are not complications in this area. Deferred bonus schemes and share schemes will also fall under this basis.

- **Sole traders**
  For those who trade via an unincorporated method, the trade will cease upon the date of death, apart from those who trade via LLP structures or a traditional partnership, where the trade will be dependent on any agreement made between partners relevant to death. If the business has overlap relief carried forward this can be claimed during the tax year that the taxpayer passes away. If losses are realised in the last period of account before death, losses can be claimed and offset against trading income from that period, as a deduction against other income during the tax year and also under the terminal loss relief provisions.
- **Directors**
  Directors will often have a small salary and varying amounts of dividends paid throughout the tax year. Salary is dealt with above under the employment income section. Dividends will be taxable when they are due and payable to the owner of the shares. If a dividend is declared before a person dies, then this will still be taxable on them even if a dividend is paid after death. In relation to investment income and dividends from quoted shares, the same treatment applies.
- **Property and Land income**
  Property income must be apportioned to the periods prior to death and after death. This can be either on a 'cash basis' i.e. when the cash is received or alternatively, taxpayers or personal representatives can elect for the accruals basis to apply (or this will apply if rental profits exceed £150,000 per tax year). Any losses that are brought forward will not be available to be used by the personal representatives.

  If rental property is transferred under a will to beneficiaries, then they will need to prepare self-assessment returns to declare the rental income.
- **Interest**
  Interest will be taxable when this is paid. If interest is paid annually, the amount will not be pro-rata during the tax year before and after the deceased's death, it will simply fall into the period during which it is paid.
- **Capital Gains**
  During the period of administration capital gains tax will be payable on any assets that are disposed of by the estate. This does not include assets that are appointed or distributed to beneficiaries. Personal representatives will qualify for the full capital gains

tax exemption to offset against any chargeable gains for two tax years after death, currently £12,300

Inheritance Tax

The requirements to prepare self-assessment tax returns to report income and gains, as detailed above, are separate from the requirement to potentially submit Inheritance Tax returns and to pay Inheritance Tax if it is due. Please refer to the other articles on our website for guidance in this area.