



*Eatons*

## Sisters Lose Inheritance Tax Battle

### NEWS RELEASE

The story of the elderly sisters who face having to sell their house when one of them dies' is not quite as clear-cut as it would seem at first glance, says Jeremy Parker of Eatons solicitors.

The two women have lost their legal battle to be treated in the same way for Inheritance Tax (IHT) purposes as a married couple or civil partners, after the European Court of Human Rights (ECHR) ruled that UK tax law does not unfairly discriminate against the sisters, who have lived together for the whole of their lives.

The sisters' property was valued in 2006 at £550,000. Their case rested on the fact that when one of them dies, because each of them owns separate assets which exceed the nil band for IHT, the estate of the deceased sister will have an IHT liability on the full value of their share of the property. A married couple or civil partners in the same position would not face an IHT liability as transfers of assets between spouses or civil partners are not normally subject to IHT.

Says Jeremy Parker of Eatons Solicitors, "The fact that the sisters have lived together for such a long time doesn't change the way they are treated under tax law. They are taxed in the same way as any two people who live together who are neither legally married nor civil partners. An unmarried couple could, for example, cohabit for decades and face just such an IHT liability when one of them dies. The Government recently shelved proposed reforms of the law which would have given couples who have lived together for a long time similar rights on death to those of spouses and civil partners. These reforms might well have come to the assistance of the sisters, had they been appropriately worded. However, the bad news for them and the millions of couples who live together is that they are entitled to no relief whatsoever from IHT in these circumstances. The ECHR

took the view that the relationship of two adults who choose to live together is 'fundamentally different to that of a married or civil partnership couple'.

It is clearly a matter of principle with the sisters that has led them to pursue their challenge through the courts, since each of them has the wherewithal to pay the likely IHT liability from their other assets. The court judgment stated that both women have shares and investments of approximately £150,000, plus other properties which could be sold to pay the IHT liability, so it is something of an exaggeration to paint this as a potential sob story of an elderly person facing the sale of their home to pay tax, as some of the tabloid newspapers have implied. In addition, with good legal advice, the sisters' IHT problem could have been mitigated significantly.

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