Inheritance Tax Planning

Inheritance tax – the tax that has risen quite dramatically under the radar!

What is Inheritance tax?
Inheritance is a tax which can arise where a beneficiary receives an Inheritance as a result of someone dying (or a gift from somebody in their lifetime). This tax falls under the heading **Capital Acquisitions Tax . Capital Acquisitions Tax** (CAT) was originally conceived as a way to claw back some funds for the Revenue from the "very wealthy".

Who pays the tax?
The person receiving the inheritance or gift is liable to CAT and not the person or the estate providing the benefit.

Tax Free Amount.
Subject to certain exemptions, (e.g. inheritance from a legal spouse, family home exemption etc.) most assets both inside and outside the state are assessable for Inheritance Tax.
Each person has an amount that they can receive tax free but it depends on their relationship with the person from whom they are inheriting from. The balance is then taxed at 33%. This tax rate was a low at 20% in 2008.
Not only has the rate with which this tax is charged been increased by 65% since 2008, the reduction in the thresholds (tax free amount) have been reduced quite significantly as can be seen from the table below.

GROUP THRESHOLDS

Group 1 €225,000	*Where the person receiving the inheritance is a child of the disponer.*
Group 2 €30,150	*Where the person receiving the inheritance is a lineal ancestor, descendant, a brother/sister or child of a brother/sister of the disponer.*
Group 3 €15,075	*All other cases.*

Thresholds have been dramatically reduced. For example, the group 1 threshold from parents to children reduced from €521,208 in 2008 to €225,000 in 2013 a reduction of over 50%. There may be a perception that, given the recent reduction in estate and asset values, the need to plan for CAT has gone away. The exact opposite is in fact the case.

For example
Mr & Mrs Kelly are aged 55 and their estate valued €1,250,000 is to be divided equally between their 2 children. Their children's inheritance tax bill will be €264,000, i.e. 21% of the estate will be taken in tax.

The Solution
The solution is a ***Section 72 Life Assurance policy*** written on a whole of life basis. The premium in this case would work out at €5,691 annually. So the options to Mr & Mrs Kelly are

1. Lose 21% of the estate in inheritance tax.
2. Save what you would pay in Life assurance premiums i.e. €5,691 per annum to try to accumulate what would be needed to pay the CAT liability. In this example, Mr & Mrs Kelly would need to save €5,691 for over 69 years to cover the CAT bill.
3. Put a Section 72 Life policy in place to protect the estate at a cost of 2% per annum of the tax bill.

Making a return
If you are resident in Ireland you must get an agent who is resident in Ireland , such as a solicitor, to take responsibility for the payment of CAT.
Gifts or inheritances with a valuation date on or after 14 June 2010 have a fixed CAT pay and file date. All gifts and inheritances with a valuation date in the 12-month period ending on the 31 August must be paid and filed by 31 October. This means, if the valuation date is between 1 January and 31 August, you must complete the tax return and pay the tax on or before 31 October in that year. If the valuation date is between 1 September and 31 December you must complete the tax return and pay the tax on or before 31 October in the following year.

Late Payment Fee
There is a surcharge for late pay and file of CAT. The surcharge is based on a percentage of the total tax payable for the year the return is late and graded according to the length of the delay. However, there is an overall cap on the level of the surcharge which is calculated as follows:
- 5% surcharge to a maximum of €12,695, if you complete the tax return and pay the tax within 2 months of the pay and file date.
- 10% surcharge up to a maximum of €63,485, if you do not complete the tax return and pay the tax within 2 months of the pay and file date.

Reliefs and exemptions.
Certain reliefs and exemptions apply to certain types of assets. These have been introduced over the years to primarily encourage private enterprise and to avoid the forced sale of a family farm, business or the family home in certain circumstances.

Spouse or Civil Partner Exemption – Gifts or inheritances received by one spouse or civil partner from the other are totally exempt from CAT.

Agricultural Relief – the value of farmland, buildings and stock can be reduced by 90% where the beneficiary is a qualifying farmer and he or she holds the property for a minimum of 6 years.

Business Relief – can provide a similar reduction of 90% of the value of certain businesses or private companies, where both the business and the beneficiary meet certain qualifying conditions.

Family Home Relief – exemption from Gift and Inheritance tax is available on the value of certain dwellings with up to an acre of land where the beneficiary meets certain conditions which ensure that the property was, and continues to be, their home.

If you feel that there may be a CAT liability when you pass on, and you would like further info on this subject please do not hesitate in contacting me here in Flanagan Ford. You can email me on ken@flanaganford.ie or call 071 9159222.

Flanagan Ford Financial Advisors was established in 1998 by Shane Flanagan & Tom Ford. Since then Ken O'Neill, Tess Monaghan & Sinead McGill joined our team, further adding to our company's expertise and knowledge and reinforcing our commitment to providing a first class service and experience to our clients. We pride ourselves on providing impartial advice to our customers and we are very aware of the trust they place in us. We believe that the key to our success is the personal service that we consistently provide. Our pledge is to provide 'Trusted Financial Advice for Life' to our clients and we do all in our power to earn their trust.

Flanagan Ford Ltd Financial Advisors,
Shell House, Wine Street, Co Sligo
Tel: 071 915 9222 / Fax: 071 914 5134
info@flanaganford.ie
www.flanaganford.ie

Flanagan Ford Limited t/a Flanagan Ford Financial Advisors is regulated by the Central Bank of Ireland.

Impact of Higher Tax rates and Lower Thresholds in recent years

Below is a table showing the impact of the increase in the tax rate and the reduction of the thresholds over the last number of years. These figures are based where an estate was left to one child.

	2008	*2012*	*2013*
Tax Rate	20%	30%	33%
Group 1 Thresh	€521,208	€250,000	€225,000
Inheritance			
€300,000	Nil	€15,000	€24,750
€500,000	Nil	€75,000	€90,750
€750,000	€45,758	€150,000	€173,250
€1,000,000	€95,758	€225,000	€255,750
€1,500,000	€195,758	€375,000	€420,750
€2,500,000	€395,758	€675,000	€750,750
€5,000,000	€895.758	€1,425,000	€1,575,750

Source: Irish Life Technical Dept