

Inheritance Tax Planning - Annual Small Gift Exemption

"The best inheritance a parent can give their children is a few minutes of their time each day"
Orlando Aloysius Battista

Searing Point

Wealth Management



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Searing Point Wealth Management Limited is regulated by the Central Bank of Ireland.

Searing Point Wealth Management Limited is a company registered in the Republic of Ireland, Company Number 489635. Registered Office: Beacon Hub, 96 Bracken Road, Sandyford, Dublin 18

UTILISING THE ANNUAL SMALL GIFT EXEMPTION AS LONG TERM INHERITANCE PLANNING

We have identified a lack of awareness in the area of Gift and Inheritance Tax. Capital Acquisitions Tax (CAT) is a tax payable by the Beneficiaries of Gifts and Inheritances. This is an outline of the current tax and legal issues that may need to be taken into account when you are considering Inheritance Tax planning and it is based on our interpretation of current legislation and Revenue practice.

€356,000,000 was paid in Capital Acquisitions Tax in 2014.

Source: www.revenue.ie published July 2015.

The 2012 Budget reduced the CAT Group Thresholds to an all-time low and as a direct result Inheritance Tax is no longer a problem only for the wealthy of Irish society, it is also a potential problem for middle class Ireland.

CURRENT CAPITAL ACQUISITIONS TAX THRESHOLDS

A beneficiary of a gift or inheritance is entitled to a tax-free threshold i.e. an amount below which no tax is payable. The Group threshold amounts vary depending on the relationship between the beneficiary and the disponent. The tax free Group Threshold amount is deducted from the taxable value of the gift or inheritance in order to arrive at the amount liable to CAT.

Group	Threshold	Relationship to Disponent
A *	€280,000	Son / Daughter
B	€30,150	Brother/Sister/Niece/Nephew/Grandchild
C	€15,075	Stranger (i.e. Other than Group A & B)

* In certain circumstances a parent taking an inheritance from a child can qualify for Group A threshold.

CAPITAL ACQUISITIONS TAX RATE

For new gifts and inheritances received on or after 5th December 2001, CAT is calculated according to the total value of all gifts and inheritances received from all sources since 5th December, 1991. What this means is that all gifts or inheritances received after 5th December 1991 are aggregated with all gifts/inheritances received since that date to determine the Group Threshold amount that has been used. The Group Threshold is therefore reduced on the taking of successive gifts and inheritances.



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The following rate currently applies:

Amount	Rate
Group Threshold	Nil
Balance	33%

WHAT ASSETS ARE LIABLE TO INHERITANCE OR GIFT TAX?

Where the assets are received as an inheritance the personal representatives of the deceased must list all assets and liabilities of the deceased when completing a Revenue Affidavit prior to applying for a Grant of Probate (in the case of a Testate Estate)

Tax is levied on the total net value of all assets received by a beneficiary, other than a legal spouse or registered civil partner. All assets are taken into account, the family home, a second home or investment property, the value of all investments, including cash, pension and life assurance benefits as well as all personal property e.g. house contents, jewellery, paintings etc.

RELIEFS AND EXEMPTIONS:

Certain reliefs and exemptions from Capital Acquisitions Tax apply to certain types of assets. These have been introduced over the years primarily to encourage private enterprise and to avoid the forced sale of a family farm, business or the family home in certain circumstances. The main exemptions / reliefs are:

- Spouse or Civil Partner Exemption
- Agricultural Relief
- Business Relief
- Dwelling House Relief
- Life Assurance Relief

SMALL GIFT EXEMPTION

Capital Acquisitions Tax / Gift Tax legislation allows for an exemption from CAT for the first €3,000 of any gift taken by a beneficiary in a tax year from any one 'donor'. What this means is that a beneficiary can receive up to €3,000 tax free in any one year from any donor, or even multiple donors. This gift will not impact on their appropriate tax free group threshold when calculating tax on any future gifts or inheritances.



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The small gift exemption is frequently used as a tax planning tool, particularly in providing funds for children and/or grandchildren.

Example

A couple aged 68, own their own home valued at €500,000, and a rental property valued at €250,000. They have investments totalling €150,000 and are in receipt of sufficient pension income to support their lifestyle. They have 2 children to whom they will leave their estate equally.

If we assume both parents die in 10 years, no increase in asset values or changes to current legislation and Revenue practice. They take no action.

(1) Take No Action	Total	Child 1	Child 2
	€	€	€
Total Assets	900,000	450,000	450,000
Class A Threshold	(560,000)	(280,000)	(280,000)
Taxable Amount	340,000	170,000	170,000
CAT @ 33%	112,200	56,100	56,100
Net Proceeds after Tax	787,800	393,900	393,900

Now, if we assume both parents die in 10 years, no increase in asset values or changes to current legislation and Revenue practice and the following action is taken: **Both parents make use of the Annual Gift Exemption. Each parent gifts each child €3,000 per annum and withdraws the gift from their investments.**

(2) Make Annual 'small gifts'	Total	Child 1	Child 2
	€	€	€
Total Assets	900,000	450,000	450,000
Small Annual Gifts (Note)	(120,000)	(60,000)	(60,000)
	780,000	390,000	390,000
Class A Threshold	(560,000)	(280,000)	(280,000)
Taxable Amount	220,000	110,000	110,000
CAT @ 33%	72,600	36,300	36,300
Net Proceeds after Tax	827,400	413,700	413,700

Note: Annual gift of €3k from each parent to each child for ten years (€6k x 2 x 10)

This would provide a saving of €19,800 per child in Capital Acquisitions Tax liability.



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If you would like to use the annual allowance to gift these funds to a child under 18 you could use a Bare Trust.

What is a Bare Trust?

A Bare trust is often used for children under the age of 18. A bare trust arises when money is added to a trust fund in the name of the trustees but is treated as legally belonging to the child at all times.

Who might use a Bare Trust?

It is used by clients who want to make a gift of money to children and benefit from today's Capital Acquisitions Tax thresholds and small gift exemption. They want to maintain control over how the money is invested and use a life investment policy to do this.

Why use a Bare Trust?

- Avail of the thresholds and the tax rates that apply today.
- Select who you want to benefit from trust today.
- The value of the trust can be paid to the chosen beneficiary, without the need to wait for probate in the event of death. This is due to the gift being made once the trust is in place.
- Flexibility – you choose when and how much you want to give to the trust.

If you would like further information on Inheritance Tax Planning and how the various exemptions can be used, please feel free to contact us.

Tax is a complicated subject. This gives only a very brief guide to some of the Inheritance Tax rules applying in November 2015. These rules may change in the future. You should discuss your personal situation and the likely effect Inheritance Tax will have on your plans with your tax or financial adviser.

Whilst every care has been taken to ensure that the information in this guide is accurate, Searing Point Wealth Management Ltd does not accept responsibility for errors contained in this document. This Guide does not constitute tax or estate planning advice and has not been prepared based on the financial needs or objectives of any particular person, and does not take account of the specific needs or circumstances of any person.



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Tailored Advice

At Searing Point Wealth Management we offer financial advice tailored to take account of clients' individual circumstances.

Qualified Financial Advice

To receive the best advice you need an experienced and qualified advisor. We stay fully abreast of the latest in changing tax and pension legislation so that we can maximise the opportunities for wealth creation or protection at all times.

Convenience

Our offices are conveniently located in Sandyford and Malahide. With your busy lives in mind, we can schedule appointments both during and outside normal working hours, in the office or at an alternative location if preferred.

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Factsheet November 2015

➤ Property & Mortgage Facts

Estimated Monthly repayment per €1,000 borrowed.

Interest Rate Assumed	Mortgage Term				
	10yrs	15yrs	20yrs	25yrs	30yrs
4%	€10.12	€7.40	€6.06	€5.28	€4.77
5%	€10.61	€7.91	€6.60	€5.85	€5.37
6%	€11.10	€8.44	€7.16	€6.44	€6.00

Example: for a €250,000 mortgage over 20 years at 4% interest rate repayments would be €1,515 per month.
(250,000/1000 x €6.06)

Standard Variable Rates (Gross Rates)

KBC	AIB	Haven	EBS	Ulster Bank	Bank of Ireland	Permanent TSB
4.5% (4.59% APR)	3.65% (3.71% APR)	3.72% (3.8% APR)	3.7% (3.8% APR)	4.3% (4.4% APR)	4.5% (4.6% APR)	4.5% (4.6% APR)

These are the existing rates available however some banks have moved to loan to value (LTV) variable rates, these are currently ranging from 3.25% -4.5% for example. KBC LTV 60%-80% rate is 3.65% (3.71% APR). APR is based on a typical mortgage of €100,000 over 20 years.

Stamp Duty Rates

	First €1 million	Balance
Residential	1%	2%
Commercial	2%	2%

Local Property Tax

Yearly rate is 0.18% of the market value up to €1 million and 0.25% on excess above €1 million

Variable rates and deposit rates correct as at November 2015

All information, prices and rates quoted in this factsheet have been obtained from publically available sources.

Searing Point Wealth Management Ltd accept no responsibility or liability for this information.

➤ Deposits

Best Interest Rates on Euro Personal Deposit Accounts

Account Type	Instant Access	30 Day Notice	3 Month Fixed Term	6 Month Fixed Term	12 Month Fixed Term	12 Month Interest First
Rate	1.05% AER	1.25% AER	0.50% AER	1% AER	1.10% AER	1.00 % AER

➤ State Pension Benefits

The current age to qualify for benefits is age 66 this will rise to 67 in 2021 and 68 in 2028. So:

- If you were born on or after 1 January 1955 the minimum qualifying State pension age will be 67.
- If you were born on or after 1 January 1961 the minimum qualifying State pension age will be 68.

State Pension (contributory)	€230.30 per week
Personal + Adult Dependant (over 66)	€436.60 per week
Personal + Adult Dependant (under 66)	€383.80 per week

➤ Pension

Monthly cost of Annual Single Life Pension equivalent to €10,000 in today's terms

Retirement at Age 65			
If you start funding pension at age	Pension value at age 65	Initial Monthly Premium	
		Gross	Net of 40% tax relief
30	€28,145	€504	€302
35	€24,272	€598	€359
40	€20,938	€727	€436
45	€18,062	€923	€554
50	€15,580	€1,248	€749
55	€13,439	€1,905	€1,142

Figures assume: 3% inflation p.a., contributions increase at 3% p.a., 5.4% growth p.a. (not guaranteed), Standard PRSA charging structure.

Pension based on annuity rates available for individual single life pension, guaranteed for 5 years, increasing at 2% p.a. in retirement assuming 3%p.a. interest rate.