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INHERITANCE TAX - DOES THIS AFFECT YOU?

Assets passing on death between married couples or civil partners are exempt from Inheritance Tax. BUT this exemption only applies in the case of "legal spouses" and same sex registered civil partners.

All other couples are treated as strangers for Inheritance Tax purposes and the threshold is currently €16,250. Inheritances in excess of this are subject to tax at 33%.

Source: Capital Acquisitions Tax Consolidation Act 2003 (as updated) 12th October 2016.

On the death of a non married partner Inheritance Tax will be payable on the total value of all assets, regardless of how long the couple have lived together. Where a 'co-habiting partner' inherits assets, the €16,250 threshold could easily be exceeded.

Let's take an example

Mary and John have lived together for 10 years. They have never married. They have two children.

Their assets are as follows:

Family Home – jointly owned	€450,000
Life Assurance – dual life	€500,000
John's Company pension	€240,000
Apartment in Turkey	€ 80,000
Various savings and investments	€ 50,000

If John dies Mary inherits as follows:

½ Family Home	€225,000
½ Life Assurance	€250,000
John's pension	€240,000
½ Apartment	€ 40,000
½ Savings	€ 25,000
Total	€780,000
Less threshold	€ 16,250
Taxable at 33%	€763,750
Mary's Tax bill	**€252,037**

If Mary dies John inherits as follows:

½ Family Home	€225,000
½ Life Assurance	€250,000
½ Apartment	€ 40,000
½ Savings	€ 25,000
Total	€540,000
Less threshold	€ 16,250
Taxable at 33%	€523,750
John's Tax bill	**€172,837**

If this affects you, please turn overleaf

Points to consider.......HOW CAN YOU REDUCE YOUR TAX BILL?

1. FAMILY HOME

The Finance Act 2000 introduced a complete exemption from Inheritance and Gift Tax on the value of "a dwelling", subject to certain conditions. Finance Act 2016 has added further conditions which have restricted this relief and now both the person passing on the property and the person inheriting the property must meet certain conditions. This relief is commonly referred to as "family home relief".

For the relief to apply, the person passing on the property must be living in the "dwelling house" at the time of their death.

In addition to this the person who inherits the house must:

- Have occupied the house as his/her sole or main dwelling for three years prior to the date of the gift or inheritance,
- At the date of the gift or inheritance not hold an interest in any other dwelling house,
- Continue to occupy the house as his/her sole or main residence for 6 years after the date of the gift or inheritance.

Thus the "family home" may be exempt from Inheritance Tax if both the donor and the beneficiary meet these conditions which effectively ensure that the property was, and continues to be their family home.

In addition, at the time they receive the inheritance the beneficiary must not own any other "residential property" – even owning a share in another property means this relief will not apply.

The relief is not restricted to parent / child relationship. It is available between any two individuals, for example, elderly brothers and sisters living together or cohabiting couples.

Because of the reference to "family home" this relief is often misunderstood.

If the above conditions are not met then there could be significant tax implications for the survivor.

Will you or your partner qualify for family home relief?

QUESTIONS TO ASK YOURSELF

- How long are you both living in the house together?
- Is there any other property owned by either of you?
- Who will inherit the house?

2. LIFE COVER

Life Assurance can provide you with the funds to cover your Inheritance Tax bill

Let's take an example

Mary's tax bill in the previous example is €252,037.

- Mary takes out a "Life Policy" with Life Cover of €252,037 on John's life i.e. Mary is the proposer / plan owner with John as the life assured.
- Mary pays the premiums from her own bank account.
- John dies and the €252,037 is paid directly to Mary, as she is the legal owner of the plan.

Mary has no liability to Inheritance Tax on the plan proceeds, as she is both the person who receives the death benefit and the person who paid the premiums.

Mary can use the money from the life assurance plan to pay the Inheritance Tax liability she will have on John's death.

You should review your family and mortgage protection arrangements to ensure that they are set up in the most tax efficient way possible.

We advise that you seek professional legal and tax advice as the information given is a guideline only and does not take into account your personal circumstances. The examples included are for guidance purposes only and are not based on any real individual circumstances and should not be constituted as advice in any particular instance.

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