Inheritance Tax – no longer just a wealth tax!

Benjamin Franklin once wrote ‘The only things certain in life are death and taxes’. I’m not sure if Mr. Franklin had been thinking about Inheritance Tax when he wrote this quote, but if your clients ever wanted to see it brought into sharp focus, a Tax that only becomes payable on death will do it!

Justin Kelly
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“The only things certain in life are death and taxes” - Benjamin Franklin

Recent budget changes have significantly altered the perception of C.A.T. (Capital Acquisitions Tax). In the past, this was seen by many as a tax on wealth (and the very wealthy) – but this has now changed. C.A.T. now affects a much greater number of people, with thresholds having been reduced so as to capture more people. As a result, I think more and more Financial Brokers will need to consider some form of C.A.T. planning with their clients.

C.A.T. planning is important as the need for your clients to protect and care for their loved ones does not end when they die. The relationship between your client and their family carries on after their death through the benefits they bequeath to their family as successors.

These bequests will often trigger a liability to C.A.T. In recent budgets, the C.A.T. threshold between parents and children has decreased considerably and the tax rate has increased to 33%, thereby increasing a child’s tax liability.

The tax bill suffered by beneficiaries may therefore be quite substantial depending on

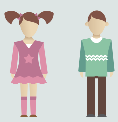
- the relationship between the beneficiary of the estate and the deceased,
- the net value of the inheritances received by each beneficiary, and
- any previous gifts/inheritances received.

Despite the economic downturn, there are still many situations where children will be faced with a tax liability in the event of their parents dying. Of course, it is not just the value of a parent’s house that is taken into account, but the value of their entire estate. This would mean any savings, policies of life insurance, pensions and the actual value of other assets they may have is totalled to arrive at the value of the estate.

The decrease in the Group A Threshold between parents and children, coupled with the increase in the tax rate to 33%, means that a lot of children will have a liability to C.A.T. in the event of both their parents dying.

Liability to inheritance Groups

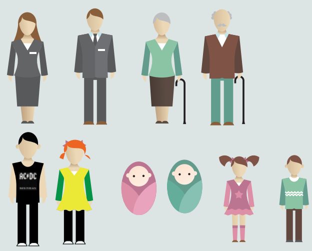
Group A



Son / Daughter

€225,000

Group B



Parent / Brother / Sister / Niece / Nephew / Grandchild / Grandparent

€30,150

Group C

Everybody else

€15,075

Inheritance Tax

Your clients, with the exception of their spouse, may be faced with two choices in order to meet any C.A.T. liability on their estate – either dip into their own resources or sell part of their inheritance. Having to sell part of their inheritance to meet the tax liability may be a very hard choice to face, especially going through the very difficult period following the death of a parent, for example.

However, there is a simple solution. By helping your clients to put in place a Section 72* life assurance policy, they can continue, unhindered by death or serious illness, to protect their family by providing a cash sum which will fund the expected C.A.T. liability arising on the benefits their family inherits from the estate.

Revenue states that 'Section 72 policies are special insurance policies taken out specifically to discharge Inheritance Tax.' The proceeds of this life insurance policy set up under Section 72 are exempt from inheritance tax insofar as those proceeds are used to pay the inheritance tax that arises on death.

A policy can be effected on a single or joint life basis so that in the event of death, your client's family can use the proceeds of the policy to pay off the inheritance tax liability.

As there is a spouse exemption to C.A.T. on inheritances passed from one spouse to another, a Joint Life Second Death policy is used for married couples. In the event of one life dying, the policy continues on the second life. When that second life dies, the proceeds are paid out to the beneficiaries to pay off the expected inheritance tax liability.

Policies taken out under Section 72 are generally 'whole of life' policies i.e. protecting a person for the whole of their life with no age of cessation. A Guaranteed Whole Life policy is a contract where the premiums are guaranteed over the life of the policy and will not change. The benefits under the policy are also guaranteed to be paid on the death of the policy holder. The premiums are set at outset and are not subject to any review.

Guaranteed Whole of Life policies have become popular in the life insurance market as Financial Brokers look to put in place appropriate cover to meet the inevitable inheritance tax liabilities their clients will face. Some reviewable unit-linked policies have come in for some bad press due to the premiums payable becoming unaffordable for some people.

It means, though, that there is a choice for people to enable them to cover the Inheritance Tax liability and that the protection they give to their loved ones when they are alive, can also be extended to when they die.

*Section 72 Capital Acquisitions Tax Consolidation Act 2003 was previously consolidated as Section 60 Finance Act 1985

For more information on inheritance tax planning, C.A.T. and Section 72 Polices, just speak to your Zurich Life Broker Consultant or visit **www.zurichlife.ie/ Brokercentre**

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Print Ref: ZURL ISA 146 0713

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