Here's what you need to know about inheritance tax

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It might not be the easiest topic to think about, but getting your ducks in a row in relation to issues of inheritance is one of the wisest financial decisions you can make. In times of bereavement, money should be the last of your worries.

Here’s what to bear in mind to ensure you can help your parents to get their inheritance sorted out in good time. Two simple issues :

1. The Will

Firstly, make sure there is a will in place. While your parents may think that the Succession Act ensures that their next of kin will inherit their assets, a will speeds up legal proceedings and ensures every detail is taken care of in accordance with your parent's wishes – which can also help to avoid some nasty arguments between the bereaved.

As well as expediency, a will offers clarity by appointing one or more executors, one of whom will become the personal representative of the deceased. This means that they are responsible for collecting assets, repaying any debts and distributing remaining assets.

Make sure there is a will in place

By appointing a personal representative before their death, your parent will avoid the need for you to make an application to the courts for a suitable person to occupy that role.

Without a will, a person dies intestate and certain rules come into play pertaining to the division of their assets. In the case that you are a child of someone with a spouse or civil partner, two thirds of your parent’s estate is left to their partner and the remainder divided equally between you and any other children; or, if your parent has no spouse or civil partner, all assets are equally divided between you and any other children.

Where a will is in place, a spouse is entitled to one-third of their partner’s estate, regardless of the terms of the will. Also ensure there is an Enduring Power of Attorney signed so that should your parents not be in a position in later years to make decisions or sign, this legal document will give to the power to act on their behalf.

Ireland’s inheritance tax is a hefty 33%

2. The Tax

The thorn in the side of many an inheritance, Ireland’s inheritance tax – or Capital Acquisitions Tax (CAT) – is a hefty 33%. As a child, you are entitled to inherit a certain amount (up to € 310,000 in your lifetime) tax-free; after this point, you are charged 33%.

So, if you are due to inherit a property worth €480,000, you are liable to pay 33% tax on the difference between the €310,000 threshold and what the property is worth: in this case, €56,666. Not something easily affordable to many.

In order to plan for this – and assuming that they are married – you should first ensure that your parents arrange for their joint estate to be left to the second parent to pass away, as they will not have to pay tax on inheritance from their spouse or legal partner.

There are two other CAT categories...

- **B.** Aunt/uncle, brother/sister, nephew/niece, grandchild - threshold € 32,500
- **C.** Anyone else including me! - threshold € 16,260

At this point, there are certain exemptions that may apply to you. If you have always lived in your parents’ home, stay there after their deaths and don’t own another property, you may be exempt from inheritance tax; similarly, in some instances, you may be able to avail of business or agricultural relief that reduces the valuation of the asset by 90%, meaning your potential tax bill is significantly reduced, if not quashed.

Lastly, if your parents have life insurance through a Section 72 life assurance policy, you literally have insurance that covers the cost of inheritance tax. This means that the proceeds of that policy are not taxed when used to pay an inheritance tax bill.

Many parents take out this form of policy in order to ensure that their children can inherit their estate without needing to pay any tax.

It may seem like a complicated road and one that doesn't bear thinking about, but like any financial quandaries, planning in advance can help hugely with inheritance. If you're feeling uncertain, pop me an email for advice tailored to your own situation.

For more information click on John Lowe's profile above or on his website.