Standard Life

Saving for gift tax

No matter where you are on life's journey, there are choices you can make now that will make a difference to you and your family's futures.

Choices like who will help you with your life savings and putting a plan in place to give gifts to the people you love, in the most efficient way.

This guide will give you some information.

Your financial adviser will help you take the steps to build a plan for your life savings.

Planning for the future

Are you planning on making gifts of money or other assets to your family in the future? Did you know the person receiving the gift may have to pay Capital Acquisitions Tax (CAT) on it?

However, you, the giver, can set up a savings policy* to pay this tax, which can mean a significant tax saving for your beneficiary.

* a life assurance savings policy in a form approved by Revenue.

Thinking about tax

If you receive a gift, you may have to pay tax on it. This gift tax is formally called Capital Acquisitions Tax. Gifts and inheritances can be received free from CAT up to a certain amount. The tax free amount varies depending on your relationship to the person giving the gift (Group Threshold).

There are three different groups. Each group has a threshold that applies to the total amounts of gifts and inheritances you've received since 5 December 1991, from people in that group.

CAT thresholds from 9 October 2019

Group	Beneficiary	Tax free amount*
A	A child (including adopted child, step-child and certain foster children) or minor child of a deceased child of the person giving the gift.	**€335,000**
B	A brother, sister, neice, nephew or lineal ancestor or lineal descendant of the person giving the gift.	**€32,500**
C	All other relationships, other than those mentioned in A or B.	**€16,250**

* CAT only applies to amounts over the relevant group threshold.
CAT is charged at 33% on gifts and inheritances.

How does Section 73 relief work?

Mary wants to gift her son Tom a house worth €500,000 in 8 years' time. But she also knows he will need money to pay the gift tax. If Mary gifts him this money it could create an additional gift tax liability.

Mary could use Section 73 of the Capital Acquisition Taxes Consolidation Act 2003. This allows Mary to save for Tom's gift tax liability in a life assurance savings policy** over a minimum of 8 years, without causing another taxable gift for Tom.

** a life assurance savings policy in a form approved by Revenue.

Calculating the tax liability on the gift of the house

Value of house	€500,000
less CAT threshold – parent to child	(€335,000)
less Annual Small Gift Exemption in year of gift	(€3,000)
Taxable asset	€162,000
Gift tax liability (€162,000 @ 33%)	**€53,460**

If she funds the gift tax liability on the house through a Section 73 savings policy, it should ensure that it doesn't give rise to any further gift tax liability for Tom.

So what is the total tax saving?	If gift tax paid without a Section 73 policy	If gift tax paid using a Section 73 policy
Gift tax liability on the house	€53,460	€53,460
Gift tax liability of Mary paying gift tax for Tom (€ 53,460 @ 33%)	€17,642	NIL*
Total tax liability	€71,102	€53,460
Gift tax saving	**N/A**	**€17,642**

* If the gift tax liability on the house is paid for with money withdrawn from the Section 73 policy within one year of the gift, then this does not give rise to an additional tax liability. This example assumes Tom received no previous gifts from his parents and there was no Capital Gains Tax (CGT) available to claim as a credit in the CAT calculation.

Saving for a future gift tax liability

A savings policy that has been specifically set up to pay a future gift tax liability is exempt from CAT, provided certain Revenue conditions are satisfied. The main requirements are:

- The policy must be expressly set up under Section 73 of Capital Acquisitions Tax Consolidation Act 2003 for the purpose of paying gift tax
- Premiums must be paid continually for at least 8 years (premiums can only be paid monthly, quarterly, half-yearly or yearly – no single premiums permitted)
- The policy must be in the name of one person (only a married couple or civil partners can have the policy in joint names)
- The policy owner must pay the premiums
- The maximum difference between the highest and lowest annual premium over the period is not more than 100%
- If premiums are not paid for 1 year, no further premium may be added
- If premiums stop for 1 year before the end of 8 continuous years, the relief can't be applied
- The proceeds must be used to pay gift tax due on a gift made within 1 year of the proceeds being paid
- The policy owner has 1 year from the date they withdraw the money from the policy to pay the gift tax due. After this date the relief will not apply

Once all Revenue requirements are met, it means that if the money withdrawn from the policy is used to pay the beneficiary's gift tax liability, it will not increase their overall gift tax liability. The payment of gift tax on their behalf is relieved from gift tax.

There is no obligation on you to use the policy to pay gift tax if you choose not to at the end of the period. If you don't, it's just a normal savings policy and the money can be used for your own personal use.

Remember…

Certain conditions must be met for the savings policy to qualify for relief under Section 73 of the Capital Acquisitions Tax Consolidation Act 2003. Visit **www.revenue.ie** for more information.

If the policy no longer qualifies for Section 73 relief, then it's treated like an ordinary savings policy, and if gifted or inherited, counts towards the Capital Acquisitions Tax thresholds of the beneficiaries.

If you decided not to use the policy to pay a gift tax liability, or there's no longer a gift tax liability, then you can treat the policy like an ordinary savings policy and use the proceeds for your personal use.

We recommend you get independent legal, tax and financial advice. You should not make a decision to invest solely on the information in this document.

Laws and tax rules may change in the future. The information here is based on our understanding in January 2022.

Find out more

Talk to your financial adviser today about saving for gift tax with Standard Life.

They'll give you the information you need to get you started.