Don’t Get Caught in the CAT Trap

The impact of amendments to Capital Acquisitions Tax (C.A.T.) exemptions, which were introduced by the Finance Act 2014, means that more people now risk falling into the C.A.T trap.

C.A.T is charged on all gifts and inheritances, and the tax is payable at 33% of the value of the gift or inheritance received. While gifts or payments to a spouse or civil partner are exempt from C.A.T, children, descendants, and other friends or family must pay tax on any gift or inheritance over a certain level. And, the level at which the tax becomes payable has been steadily decreasing in recent years.

Gift or inheritance income below the following lifetime thresholds are currently exempt from C.A.T:

<table>
<thead>
<tr>
<th>Category</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child</td>
<td>€ 225,000</td>
</tr>
<tr>
<td>Descendant</td>
<td>€ 30,150</td>
</tr>
<tr>
<td>Other</td>
<td>€ 15,075</td>
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However, as the following example outlines, even a modest inheritance from a parent can see the beneficiary facing quite a sizeable tax bill. Also, where the inheritance is solely in property, the beneficiary may actually need to sell the house or farm to pay the tax that is due.

**Single Beneficiary:**

A widower owns a house valued at €300,000, and has savings of €80,000. His son is the sole beneficiary of his father’s estate and, therefore, the tax amount liable is €155,000.

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€380,000 - €225,000 = €155,000 \\
taxed @33% = €51,150 tax payable.
\]

One simple solution to the current C.A.T trap, they say, particularly where there are cash assets, is to avail of the annual €3,000 gift exemption. This is a simple method of passing assets, on an annual basis, to children and grandchildren. Both parents can make gifts of this amount, tax free, without reducing the lifetime exemption threshold that beneficiaries have. This next example illustrates how this works;

**Tax-free Gifting:**

Joe and Mary are married and have a daughter Susan. Susan is married to John, and they have two children. On an annual basis, both Joe and Mary can gift €3,000 each to Susan, John and the two grandchildren. Each year €24,000 can be gifted without any C.A.T implications.

The gifts to the grandchildren can be invested in savings policies.

Over a ten year period, John and Mary gift a total of €240,000 to their daughter and her family. They have more than doubled the value of Susan’s exemption threshold, and, at current rates, have saved her a potential tax liability of €73,920.

**Insuring against C.A.T**

For more complex estates, generally with values considerably in excess of the lifetime exemption thresholds, products known as Section 72 and 73 insurance policies are available. These are special policies taken out specifically to be used to discharge Inheritance Tax (section 72) and Gift Tax (section 73), where the proceeds are designed to pay C.A.T liability. However, if having paid annual premiums, the proceeds of the policies exceed the liability for gift or inheritance tax, this excess is then liable for gift or inheritance tax.

Anyone concerned about any aspect of the above matters can seek expert advice from their financial advisor.