

Using a Life Assurance Protection Plan to Fund for Inheritance Tax



Unique Financial Services

Relief is given in Section 72 of Capital Acquisitions Tax (CAT) Consolidation Act 2003 to allow people to plan for the payment of inheritance tax (Section 72) in a tax efficient way.

If a life assurance protection plan is put in place to provide for the 'relevant' tax, Revenue will not charge Capital Acquisitions Tax on the plan proceeds if the money is actually used to pay inheritance tax.

WHAT IS THE BENEFIT OF YOUR CLIENT TAKING OUT A SECTION 72 PROTECTION PLAN?

The benefit of using a 'qualifying' life assurance plan to fund for the payment of inheritance tax is that, as long as certain conditions are met, the proceeds of the plan when used to pay inheritance tax, will not increase the beneficiaries inheritance tax liability.

Whereas, if the money was left in a bank account, for example, this money will be seen by Revenue as an additional inheritance and will increase the tax bill.

| | Bank Account proceeds | 'Special' Section 72 plan |
|--------------------------|-----------------------|---------------------------|
| Value accumulated | €100,000 | €100,000 |
| Tax payable | €33,000 | Nil* |
| Left to pay tax | €67,000 | €100,000 |

* If this plan is used to pay the relevant inheritance tax arising on the death of the life (or lives) assured under the life assurance protection plan, inheritance tax will not be payable on the plan proceeds.

HOW THE SECTION 72 RELIEF FROM INHERITANCE TAX WORKS IN PRACTISE IS SHOWN BELOW?

John and Mary are married. Their estate is valued at €1,000,000 and will be inherited by their only child, their son Paul.

| | |
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| Total inheritance | €1,000,000 |
| Tax free threshold (assuming no previous gifts / inheritances received) | €320,000 |
| Taxable inheritance | €680,000 |
| Taxable at 33% | € 224,400 or nearly 23% of inheritance taken in tax |

Therefore, when John and Mary die, their son Paul will lose up to 23% of the estate as he will have to pay €224,400 in inheritance tax.

To fund for this, John and Mary could affect a (Section 72) life assurance protection plan, which would pay out €224,400 when they die. This amount will be tax free if used to clear Paul's inheritance tax bill.

WHO OWNS THE SECTION 72 PROTECTION PLAN?

The person leaving the inheritance is the proposer / plan owner and owns the Section 72 plan.

WHO PAYS THE PREMIUM ON THE SECTION 72 PROTECTION PLAN?

The person leaving the inheritance must pay the premium on the plan.

CAN MY CLIENT USE AN EXISTING PROTECTION CONTRACT AS A SECTION 72 PROTECTION PLAN?

No, an existing contract cannot be switched to a Section 72 plan. The plan must be specifically endorsed as a Section 72 contract at date of commencement.

CAN BOTH SECTION 72 RELIEF AND SECTION 73 RELIEF BE AVAILED OF UNDER THE ONE PLAN?

For the proceeds of a plan to be eligible for both reliefs the contract would need to have both a life cover element AND a savings element. To qualify for relief from inheritance tax (section 72 relief) the plan must have life cover of at least 8 times the annual premium, and if the plan is ALSO to qualify for relief from gift tax (section 73 relief) there must be a unit linked savings element to the plan.

So, if there is no savings element on a protection plan it will not qualify for relief from gift tax (section 73 relief). And if there is not the minimum amount of life cover on a savings plan it will not qualify for relief from inheritance tax (section 72 relief).

WHAT HAPPENS IF MY CLIENT DIES BEFORE THEY HAVE PAID 8 YEARS PREMIUMS ON THE SECTION 72 PLAN?

While the term selected at the outset must be more than 8 years and the intention is to pay the premium for at least 8 years your client will not lose the relief if they die within that 8 year period. The contract still qualifies for the relief even if the client dies within the first 8 years, assuming all of the other Revenue rules are met (See Revenue rules below).

WHAT HAPPENS IF THERE IS AN EXCESS AMOUNT ON THE SECTION 72 PROTECTION PLAN?

Any excess sum assured over the inheritance tax liability is then subject to inheritance tax.

ARE THERE CERTAIN RESTRICTIONS TO THESE PLANS?

There are some Revenue restrictions and requirements. If these rules are not satisfied for any reason, the plan will lose its exemption from inheritance tax and could actually increase the beneficiaries' tax liability.

For more detailed information on the Revenue conditions for these types of plans please see the Main Revenue conditions below

- The plan must be expressly effected under the provisions of Section 72; normally the plan is endorsed to this effect when it is issued.
- To qualify for Section 72 relief the person who owns the plan must also pay the premium.
- A joint-life plan can only be taken out by a married couple or registered civil partners.
- You must continue to make regular premium payments for at least eight years.
- If you stop paying regular premiums, even after the eight-year period, you cannot restart.
- Your premium cannot increase or reduce by more than 50% in any continuous eight-year period unless as a result of a plan review by the life company.
- The level of protection or cover on the plan normally must be at least eight times the value of the premium being paid each year.



We advise that you and your client seek professional tax advice as the information given is a guideline only and does not take into account you or your client's personal circumstances.



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