PENSIONS
INVESTMENTS
LIFE INSURANCE

Irish Life

Succession Planning for your Approved Retirement Fund

LIFE ADVISORY SERVICES

Did you know that a correctly structured life assurance plan could help protect the value of your ARF when you pass it on to your child ?

If you are planning on leaving your ARF to your children as a lump sum, did you know that they could end up losing either 33% or 30% of its value in tax depending on their age ?

If the value of your ARF is paid to a child under the age of 21 the amount will be subject to inheritance tax, or if the amount is paid to a child over the age of 21 the Qualifying Fund Manager is obliged to deduct tax at the rate of 30% regardless of the size of the fund.

Using a correctly structured life assurance plan could help protect the value of your child's inheritance.

When the sum assured from a Section 72 life assurance protection plan is used by your children to either, pay the inheritance tax bill, or replace the income tax deducted from, the value of your ARF, the amount used will not increase their tax liability.

If you leave your children an amount to cover the tax bill in your bank account, this is considered by Revenue to be an additional inheritance, and will increase your children's tax bill.

How Section 72 relief works in practice is shown below

John is retired and a widower. On his death his estate will pass to his only daughter, Patricia aged 30.

Patricia's estimated inheritance tax liability is €500,000.

John has an ARF fund currently valued at €750,000.
Tax (30% currently) will be deducted from the ARF by the QFM on John's death, and the QFM will pay the net ARF fund of €525,000 to Patricia.

To fund for these taxes, John could effect a (Section 72) protection plan.

John effects a S.72 policy with a sum assured of €725,000, in trust for Patricia.

€500,000 of the sum assured is exempt from inheritance tax assuming it is used to pay Patricia's Inheritance Tax bill.

€225,000 is exempt in Patricia's hands as it is equivalent to the ARF tax deducted by the QFM of the ARF.

Because of Section 72 Relief, this money is not seen as an extra inheritance so it does not increase Patricia's tax liability.

If John had left Patricia €225,000 in his bank account this would have increased her tax bill by €74,250.

If this is an area which interests you please talk to your Financial Broker for further details of Irish Life's Section 72 approved plans. However, we advise that you seek professional tax and legal advice as the information given is a guideline only and does not take into account your personal circumstances.

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