

Calculating inheritance tax

Q: Could you clarify the issue of inheritance tax for me. My aunt is leaving me her house and about €80,000 in cash. Will I have much tax to pay?

A. You will have to pay inheritance tax, but a number of factors will have to be taken into account when calculating your liability.

First off, the proper name for inheritance tax is Capital Acquisitions Tax or CAT for short. CAT covers both gifts and inheritances. Tax on both a gift and inheritance are calculated in the same way.

For the purpose of answering your query I will refer to inheritance only.

Everyone is entitled to receive a certain value of an inheritance tax free.

This is called your tax free threshold. There are three threshold bands and the band you fall into will depend on your relationship to the deceased.

A beneficiary (ie. The person who inherits) who is a son or daughter of the deceased will have the greatest tax free threshold.

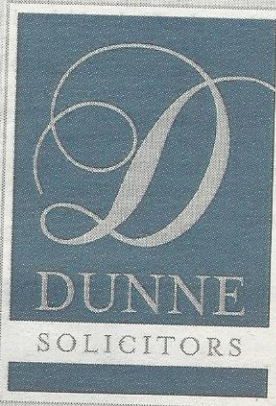
The tax free threshold for a child is currently €225,000.00.

This means that a parent can leave assets up to the value of €225,000 to their child without that child having to pay any tax on their inheritance. Son or daughter includes a stepchild or adopted child.

As it is your aunt who is leaving you the benefit, you will fall into the next tax band.

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The relatives who fall into this tax band are parents, grandparents, grandchildren, great grandchild, siblings, nieces and nephews. Therefore, you can inherit assets up to the value of €30,150 tax free.

The next tax band includes any relationship which is not included in the first two tax bands.

Those in this tax band can inherit up to the value of €16,750 tax free.

Any amount which you inherit in excess of the tax free threshold is taxed at a rate of 33% which is quite high. This rate has increased steadily over the years from 22% in 2008.

So for example, you say that

you are to inherit cash of €80,000. If you subtract the tax free amount of €30,150, we are left with a taxable amount of €49,850. (€80,000 - €30,150).

Then you apply the tax rate of 33% on the €49,850 which amounts to €16,450.50.

Therefore, you will pay tax of €16,450.50 on the cash aspect of your inheritance.

You haven't given me much information on the house. However, if you have used the house as your principal residence for three years before your aunt's death, then you can apply for "dwellinghouse exemption" which means you won't have to add the value of the house to the cash amount of €80,000 when calculating

your tax and in effect, you inherit the house free of CAT.

If however, you have not lived in the house for the three years prior to your aunts death, then you will have to include the value of the house in your calculations.

So for example, if the house is valued at say €100,000, then you add this to the €80,000 cash inheritance which adds up to €180,000. You take your tax free threshold from this amount (€180,000 - €30,150) which will leave you with €149,850 and apply that tax rate of 33% to this amount. (€149,850 x 33%) which means that you may be paying tax of up to €49,450.50.

This means that over half your cash inheritance will be given to the tax man.

This amount will be reduced if there were any debts or expenses belonging to your aunt which has to be paid out of that inheritance.

I would strongly advise you to speak with a solicitor. I have not been furnished with enough information to calculate the tax payable by you.

Also, you may be entitled to other exemptions and these will need to be investigated by your solicitor.

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