

Preserving your
**ARF
FUND**

Lifestyle
Financial *Planners*

TAX EFFICIENT SUCCESSION PLANNING FOR YOUR APPROVED RETIREMENT FUND



In conjunction with Lifestyle Financial Planners, we advise that you seek professional tax advice as the information given is a guideline only and does not take into account your personal circumstances.

In general, when assets are passed on death, the beneficiary of the asset is subject to Capital Acquisitions Tax (CAT) in the form of inheritance tax, with the spouse / civil partner exemption applying where the asset passes to a legal spouse or a registered civil partner.

This is not the case with the value of your Approved Retirement Fund (ARF) / Approved Minimum Retirement Fund (AMRF) / Vested Personal Retirement Savings Account (PRSA). Below is a table showing how these funds are taxed on death.

Taxation of ARF / AMRF / Vested PRSA funds on death

Funds to	Income Tax	Inheritance Tax
Spouse / Civil partner's ARF	No. Subsequent withdrawals subject to PAYE.	No. Spouse / Civil partner exemption
Other (Including spouse or civil partner directly)	Yes. Income of deceased in year of death. Qualified Fund Manager (QFM) deducts higher rate tax under PAYE.	Yes. Taxable Inheritance (spouse / civil partner exemption applies to legal spouse or registered civil partner)
Child under 21	No.	Yes. Taxable Inheritance
Child over 21	Yes. Subject to 30% tax regardless of fund size.	No. Exempt

Applies to ARF's set up post April 2000.

So, if your spouse or civil partner needs the value of the ARF to provide an income after death, he or she can retain the investment intact, and any subsequent drawdowns made will be liable to income tax in the normal manner.

If, however, the ARF is not required for income purposes: and your spouse or civil partner decides to encash it, this will be considered a distribution from the ARF and will be subject to Income Tax at marginal rate. The QFM is obliged to deduct this tax under Section 784A Taxes Consolidation Act (TCA) 1997.

So, if spouse or civil partner does not need the value of the deceased's ARF to generate an income, maybe there is a more tax efficient way to pass on this particular asset?

Instead of leaving their ARF to their legal spouse or civil partner, they could leave it's value to their children. As you can see from the table overleaf, the tax treatment of the value of the ARF will be different depending on the age of the child receiving it.

While you might be familiar with the use of Section 72 life assurance plans to fund for the payment of Inheritance Tax, did you know that the income tax arising on the transfer of the value of an ARF to a child over age 21 can also be funded for using Section 72 relief?

This means that assets held within an ARF can be protected and passed on to your children in a tax efficient manner through the use of a Section 72 life assurance plan.

The extension of the relief under Section 72 CAT Consolidation Act 2003 to include the income tax payable by a child over 21 gives you a real opportunity to review your existing estate planning provision.

The 'Section 72' option referred to above is not the only solution to this problem.

It is worth noting that as an alternative to effecting a Section 72 life assurance contract for the benefit of their beneficiaries, if their children are old enough to effect a life assurance contract (i.e. age 18) and where they have their own independent income, there is an option for the children to fund for this tax bill themselves through the use of life assurance.

Your children can effect a 'life of another' life assurance contract with you as the life assured. The child will be the plan owner and they will pay the premium themselves. In the event of the death of the parent, the child will receive the full sum assured from the plan, without any tax deduction, and they can use that money to pay any inheritance tax or income tax arising on the inheritance of any assets, including an ARF.

In this short note we have given you something to think about when you are reviewing your 'succession plan' for ARF / Vested PRSA. We hope we have also given you some potential solutions to the tax issues that may arise as a result of that plan.

If passing on your estate in a tax-efficient manner is an area of concern for you or your family, then get in touch with us here in Lifestyle Financial Planners, today.



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