Passing on Wealth, Tax-Efficiently to Your Children: Smart Strategies for Irish Families

Building a financial legacy for your children or grandchildren is about more than just putting money aside — it's about doing so in a way that makes the most of Ireland's tax rules. With careful planning, families can transfer wealth tax-efficiently, helping loved ones benefit from financial security without an unnecessary exposure to Capital Acquisitions Tax (CAT).

In this particular article, we'll explore three Revenue approved investment type strategies: We'll look at property and other assets in another article.

1. Making the most of the **Small Gift Exemption**,
2. Using **CAT thresholds for lump sum investments**, and
3. Leveraging **Section 73 policies** to cover tax bills on larger gifts.

Along the way, we'll explain the key rules, give practical examples, and highlight how we, at Lifestyle Financial Planners can support families in structuring these transfers.

Understanding Capital Acquisitions Tax (CAT)

Capital Acquisitions Tax is charged on gifts and inheritances in Ireland. The standard rate is **33%**, but each beneficiary is entitled to receive a certain amount tax-free over their lifetime, depending on their relationship to the person making the gift (the "disponer").

As of 2025, the three **Group thresholds** are:

- **Group A**: €400,000 – applies to gifts/inheritances from parents to children or a minor child of a deceased child
- **Group B**: €40,000 – applies to gifts/inheritances from other close relatives (e.g. siblings, grandparents, aunts, uncles).
- **Group C**: €20,000 – applies to all others.

Any amounts received over and above these thresholds are taxed at 33%. Careful structuring of gifts can help families minimise or even avoid this liability.

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1. Making Use of the Small Gift Exemption

The **Small Gift Exemption** allows any individual to give up to **€3,000 per year** to another person without triggering a CAT liability. Importantly, this exemption is **per disponer, per recipient**.

Example:

Tom and Anne want to help their grandson, Jack 8. Each can gift him €3,000 every year. Jack's parents can do the same. This means that in this instance, Jack could receive **€12,000 per year** tax-free.

If these gifts are invested regularly, for example, into a unit-linked savings plan held in trust, the money can grow significantly. Over 10 years, assuming a 4% net annual return after charges, Jack could have a gross fund value worth around **€185,000** by his 18th birthday.

Why it works

- Gifts accumulate outside the CAT thresholds.
- The exemption refreshes every calendar year.
- Multiple family members can combine exemptions for the same child.

Using a **bare trust structure** ensures that the money is legally earmarked for the child, while trustees (often the parents or grandparents) make the investment decisions until the child reaches adulthood.

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2. Maximising CAT Thresholds for Lump Sum Investments

Children benefit from the **Group A CAT threshold of €400,000** over their lifetime from their parents. This can be used strategically by making **lump sum gifts** that fall within this exemption, while also allowing the funds to grow over time.

Example:

Mary and Stephen, have substantial funds sitting on deposit, decide to gift €400,000 to their daughter, Niamh, through a single premium investment bond. Because this amount is within her Group A threshold, it is entirely CAT-free.

Regardless of the investment or how much it grows to, there will be no CAT liability to Niamh on this gift. So, for example, If the investment grows to €547,000 after eight years (based on the same 4% net annualised return after charges), the gain of €147,000 is subject to **exit tax** (currently 41% on life assurance investments), but **not subject to any CAT**.

Why it works

- Large gifts can be passed on in one step, making use of the Group A lifetime exemption.
- Growth is taxed under investment rules (exit tax), not gift tax, avoiding double taxation.
- A bare trust can again be used to ensure the investment is held for the child's benefit.

This approach is particularly effective for parents who want to transfer significant wealth early, reducing the taxable value of their own estate.

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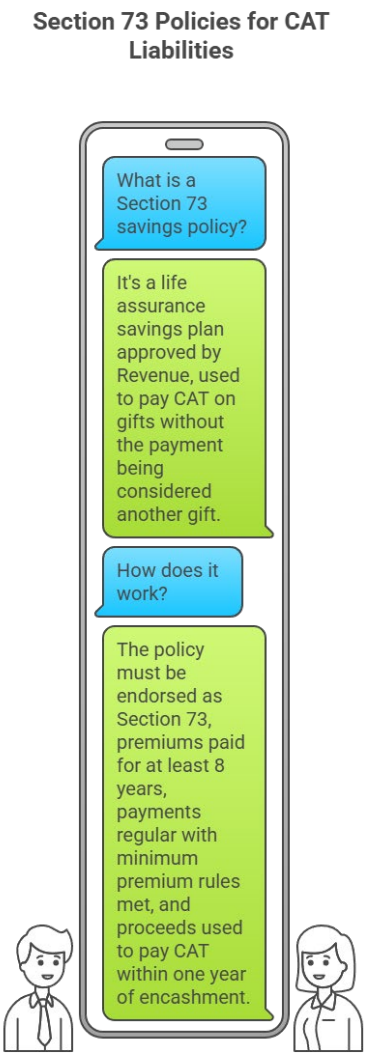
3. Using Section 73 Policies to Cover CAT Liabilities

Sometimes, the value of a gift will exceed the tax-free thresholds, triggering a CAT bill. In these cases, families can use a **Section 73 savings policy**, a life assurance savings plan approved by Revenue, to meet the liability without the payment itself being considered another gift.



How it works

- The policy must be endorsed from the outset as a Section 73 policy.
- Premiums must be paid for **at least 8 years**.
- Payments must be regular, with minimum premium rules met.
- The proceeds must be used to pay CAT on a gift made within one year of encashment.

Example: Noel plans to gift a property worth €600,000 to his daughter, Sarah. Because the Group A threshold is €400,000, Sarah faces a CAT bill on €200,000:

- Taxable amount: €200,000
- CAT @ 33% = €66,000

Noel contributes annually to a Section 73 savings policy, which grows to €66,000 after eight years. When the property is transferred, the policy pays the tax bill directly. Because it qualifies under Section 73, the proceeds are not treated as a further gift – **a not insignificant, direct saving of €21,780**.

Why it works

- Protects beneficiaries from unexpected tax burdens.
- Ensures assets such as property can be transferred intact.
- Creates certainty in tax planning for larger gifts.

Pulling It All Together By combining these strategies, families can:

- Make steady use of annual exemptions,
- Transfer larger lump sums efficiently, and
- Plan for bigger gifts with confidence where tax liabilities can be covered.

Professional financial planning ensures that each of these tools is used appropriately, that Revenue rules are strictly adhered to, and that families achieve the maximum possible benefit for the next generation.

Key Takeaways

- **Start early**: Annual gifts build up significantly over time.
- **Think strategically**: Use CAT thresholds for larger one-off transfers.
- **Plan ahead**: For big gifts, Section 73 policies can remove tax headaches.

With expert guidance from Lifestyle Financial Planners experienced and highly qualified advisors, you can secure your family's financial future while keeping the Revenue Commissioners' share to a minimum.

At Lifestyle Financial Planners, we have been specialising in helping families structure wealth transfers for generations, in a way that is **compliant, efficient, and aligned with their long-term goals**.

If you would like to discuss how we can help you in this matter, then please get in touch. Email info@lifestylefinancialplanners.ie or call 096-75951 to reserve your complimentary **Discovery Meeting**.