Lifestyle Financial Planners

What Every Irish Family, Business Owner & Company Director Needs to Know About Inheritance Tax

After more than four decades working with Irish families, business owners and company directors on their financial plans, one topic which consistently generates the most anxiety and the most avoidable mistakes is inheritance tax. People work an entire lifetime building an estate, only to discover that a substantial portion of it may never reach the people they intended it for.

This article sets out to demystify the key rules, the thresholds that apply, the reliefs available, and critically, what can be done about it.

Capital Acquisitions Tax - The Framework

In Ireland, inheritance tax sits under the umbrella of Capital Acquisitions Tax (CAT), which covers three separate taxes: Inheritance Tax (arising on death), Gift Tax (arising on lifetime transfers), and Discretionary Trust Tax (applicable to assets held in certain trust structures). This article focuses primarily on Inheritance Tax.

One point that surprises many clients: it is the person **receiving** the inheritance, not the person leaving it who carries the tax liability. Any asset, whether cash, property, investments or land, is potentially subject to CAT if it is located in Ireland, or if either the disponer or the beneficiary is resident in Ireland. The rate above the applicable tax-free threshold is currently 33%.

The Three Thresholds

The tax-free amount a beneficiary can receive depends entirely on their relationship to the person who has left it to them.

Group A applies to children inheriting from a parent and carries a tax-free threshold of €400,000. This extends to adopted, step and foster children in defined circumstances, and to a grandchild under 18 whose parent, themselves a child of the disponer has predeceased them.

Group B covers lineal ancestors and descendants, brothers, sisters, and children of brothers and sisters. The threshold here is €40,000, a significant reduction from Group A.

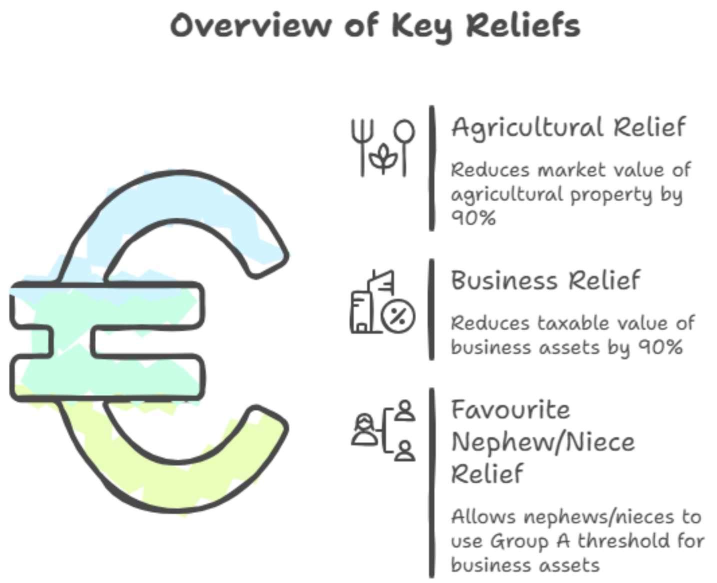
Group C covers everyone else, including, critically, **co-habiting partners**. Their tax-free threshold is just €20,000.

These thresholds are cumulative in that Revenue aggregates all gifts and inheritances received from disponers within the same group since 5 December 1991. A beneficiary who has previously received gifts approaching their threshold may find even a modest further inheritance triggers a liability.

There is also a small gift exemption of €3,000 per annum from each disponer. Two parents can gift a child €6,000 per year tax-free without affecting the Group A threshold, a simple and consistently underused planning tool.

Key Reliefs

Agricultural Relief reduces the market value of qualifying agricultural property by 90%, meaning tax is calculated on just 10% of that value. Post-2015, the beneficiary must actively farm the land for at least six years, or lease it to a qualifying active farmer for the same period. This is an enormously valuable relief for farming families, but the conditions are specific and the clawback provisions, particularly on sale within six years, could be costly.



Business Relief similarly reduces the taxable value of qualifying business assets by 90%. It applies to sole trader businesses, partnerships and certain private company shares. Individual assets transferred without the business itself may be excluded. Business relief is powerful but not a complete solution and clawback applies if the business ceases trading within six years.

Favourite Nephew/Niece Relief is less widely known but genuinely valuable. A nephew or niece who has worked substantially full-time in a disponer's business for at least five years may qualify for the Group A threshold of €400,000 on business assets, rather than the Group B threshold of €40,000. The minimum working hours required are 15 per week in a smaller family business and 24 per week where other employees are involved.

Each of these reliefs is complex. Specialist tax advice before making any returns that include them is not optional, it is essential.

The Dwelling House Exemption - Tighter Than Many Expect

The Dwelling House Exemption can remove a family home from the CAT calculation entirely, but the conditions tightened considerably from December 2016. The disponer must have occupied the property as their main residence at the date of death. The beneficiary must have lived there continuously for the three years immediately prior to the inheritance, must have no interest in any other dwelling house, and must continue to reside there for at least six years afterwards. Previously, this exemption applied more broadly to lifetime gifts but that avenue has been largely closed.

The Co-Habiting Couple: A Real and Recurring Problem

This is where I see some of the most distressing planning failures. Co-habiting couples, regardless of the length or depth of their relationship are treated as strangers for CAT purposes, with a tax-free threshold of just €20,000.

Consider a couple who purchase a home together as joint tenants. On the death of one partner, the survivor is deemed to inherit half the property. On a house valued at €350,000, that translates to a deemed inheritance of €175,000, a taxable value of €155,000 after the Group C threshold, and a CAT liability of over €51,000. If one partner made no financial contribution to the purchase, the exposure is the full property value and the liability rises significantly.

A 'Life of Another' policy, where each partner takes out a life policy on the other's life and, crucially, pays their own premium can be structured to cover precisely this liability.

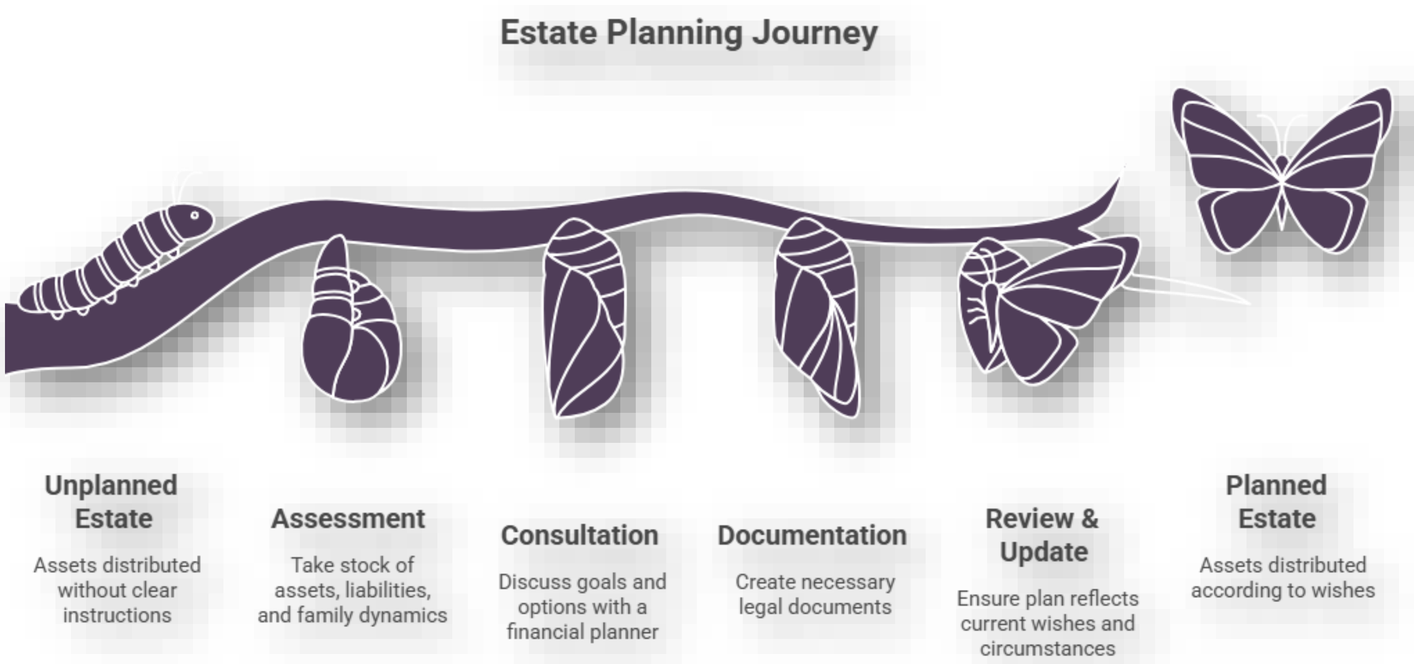
The Starting Point Is Always a Will

None of the above planning works without a valid, up-to-date Will. A Will is the foundation of any estate plan in that it allows maximum use of thresholds and reliefs, directs assets to the right people, and eliminates the uncertainty and cost of intestacy.

Inheritance tax is not a problem reserved for the very wealthy. A family home, a business, a farm, accumulated savings, these assets build up over a lifetime and can create a significant tax liability for the people left behind. The earlier planning begins, the greater the options available.

Life's not a rehearsal. Your estate plan should reflect that.

At Lifestyle Financial Planners, we've been helping Irish families, business owners, and company directors navigate exactly these challenges for generations and in many cases, we now work with the children and grandchildren of clients we first met decades ago. That continuity matters as it means we understand not just the tax code, but the family dynamics, the business history, and the values that make your estate worth protecting in the first place.



We have access to a comprehensive range of Revenue-approved policies specifically designed to reduce or eliminate CAT liabilities from Section 72 whole-of-life plans, Life of Another arrangements for co-habiting couples, Section 73 Savings plans, use of the Small Gift Tax Exemption and liaising with specialist tax advisers on business and agricultural succession strategies, and trust structures tailored to your circumstances.

These are not off-the-shelf products as each solution is built around your specific exposure, your family structure, and your longer-term financial plan. The difference between acting now and leaving it too late can run to hundreds of thousands of euro for the people you leave behind. Little point in building up substantial assets for your family over your lifetime if you're going to simply allow for a large part of that to be taken back via inheritance tax liabilities.

If you've read this far, you already understand the stakes. Get in touch with us here at Lifestyle Financial Planners and we'll work through the numbers with you via an assessment of your position and a clear picture of what can be done about it within a Discovery Meeting and take the first steps to on your road to Financial Freedom. Email info@lifestylefinancialplanners.ie or call 096-75951

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