

Capital acquisitions tax

General

Capital acquisitions tax (CAT) comprises principally gift and inheritance tax.

CAT applies when a person becomes beneficially entitled to property, either by way of a gift or on a death, for less than full consideration.

The charge to CAT for gifts or inheritances will generally arise where:

- the donor (the person providing the benefit) is resident or ordinarily resident, or
- the beneficiary is resident or ordinarily resident, or
- the subject matter of the gift or inheritance is situated in Ireland.

Special rules apply to non-domiciled donors and beneficiaries.

Calculation of CAT

Gifts or inheritances taken on or after 5 December 1991 from donors within the same group threshold (see below) must be taken into account when calculating CAT. These gifts or inheritances serve to reduce, or cancel out, the amount of the tax-free threshold available. Amounts in excess of the threshold are taxed at 25% (applicable from 8 April: 22% from 20 November 2008 to 7 April 2009: previously 20%).

Tax-free thresholds

The tax-free thresholds applicable for gifts and inheritances are set out below.

There are three categories which are based on the relationship between the donor and the beneficiary:

Group A

Applies where the beneficiary is a child or minor child of a deceased child of the donor, or a foster child of the donor, subject to certain conditions. This threshold also applies to inheritances taken by a parent from a deceased child, subject to certain exceptions.

Group B

Applies where the beneficiary is a lineal ancestor, lineal descendant (other than a child, or minor child of a deceased child), a brother, sister, or a child of a brother or sister of the donor.

Group C

Applies where the beneficiary is not related as outlined for group A or group B.

The thresholds for gifts and inheritances taken on or after 8 April 2009 are:

Group A	€434,000
Group B	€43,400
Group C	€21,700

Different threshold amounts apply to gifts and inheritances taken before 8 April 2009.

Self assessment - payment and returns

Self assessment applies to gift and inheritance tax. The beneficiary of the gift or inheritance is obliged to make a return, within 4 months of the date of the gift or inheritance, where 80% of the group threshold is exceeded. Any tax due must be paid at the same time.

Main exemptions

Subject to certain conditions, the following are exempt from CAT:

- the first €3,000 of gifts taken by a beneficiary from any one disponent in a calendar year
- gifts and inheritances between spouses
- transfers of property by virtue of any order under the Family Law Acts 1995 or 1996 in relation to a divorce
- a gift or inheritance consisting of a dwelling house that is the only or main residence of the beneficiary
- the proceeds of certain life policies
- gifts or inheritances for public or charitable purposes.

Main reliefs

- Business relief: a 90% reduction in the market value of a benefit can be applied if the benefit consists of relevant business property (such as unincorporated businesses, shares in certain family companies) where certain conditions are met.
- Agricultural relief: a 90% reduction in the market value of agricultural property (such as agricultural land, livestock and machinery) can be applied where certain conditions are met.

Discretionary trust

There is a once-off levy of 6% on certain discretionary trusts which may, in particular circumstances, be reduced to 3%. At present the levy becomes payable on the latest of the following events:

- the date the property is placed in trust
- the date of death of the settlor
- the date on which the youngest principal object of the trust attains the age of 21.

Discretionary trusts which are liable to the once-off levy are also liable to an annual levy of 1%.

Planning tip!

Make use of reduced asset values to transfer wealth to the next generation at a lower tax cost or, where certain reliefs apply, at a nil tax cost. Remember, you can transfer wealth to the next generation while retaining control over the assets transferred.

Planning tip!

Remember to consider the impact of inheritance tax when planning your will. You should ensure that your will is tax efficient and remember that separate wills are needed for foreign assets.

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