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How do I minimise tax when giving children help to buy a house?

Charlie Weston
Your Questions

Q I recently received my tax-free, lump sum from my pension. I would like to give my children some of it to help them towards buying a house. What is the best way to do this and are there tax implications to giving money to an adult child? I am aware you can give €3,000 tax free per year, however, I was thinking of a larger sum.

A You are correct about the annual €3,000 small gift exemption. You may receive a gift up to the value of €3,000 from any person in any calendar year without having to pay Capital Acquisitions Tax (CAT). But your children also have the CAT gift/inheritance tax-free threshold from a parent known as a Group A threshold, according to solicitor Susan Murphy of MakeMyWill Solicitors. This threshold is currently €335,000.

Ms Murphy said you should bear in mind that gifts given during your lifetime will be taken into account when it comes to your children receiving an inheritance from you later on.

For example, if you gift them €50,000 now, they won't have to pay CAT now, but this lump sum will come off their Group A threshold when it comes to their inheritance tax liability, the solicitor said.

Q I am considering switching jobs and I see that some companies are offering a death-in-service benefit as part of their compensation package. What is it and is it valuable?

A Death in service is an employment benefit that pays out a lump sum to your nominated beneficiaries if you pass away while you are working for your employer. The cause of death doesn't have to be work-related or take place at work, according to Karen Gallagher, Royal London Ireland interim head of proposition. She said you simply need to be on the company's payroll at the time of death to qualify.

However, sometimes you will also need to be signed up to your employer's pension scheme to qualify. The sum paid out varies, but it is typically two to four times your annual salary. So, for example, if you are earning €50,000 a year, €100,000 to €200,000 could be paid out to your beneficiaries, Ms Gallagher said. You can nominate who you want the payout to go to. If you pass away and the benefit is triggered, the money will normally be paid to the nominee or, if you didn't nominate anyone, to your estate. Ms Gallagher said death-in-service benefit is hugely valuable, but it should not be seen as a replacement for life insurance cover, and it cannot be assigned to cover your mortgage.

Also, you don't get to choose the amount of cover, as it is set by your employer. This means the payment may not be sufficient to help your dependents cope financially if you pass away. And if you leave the company, you will lose the benefit, she said.

Q I have significant pension benefits with my previous employer. I have now received a notification that this pension plan is winding up as a result of IORP II legislation. What options do I have?

A Many readers will likely receive similar letters regarding company pension plans over the coming months. Pension schemes have to comply with the European Union's IORP (Institutions for Occupational Retirement Provision) II directive by the January 1 next year, according to Mark Ruddy, head of client management at Lockton Ireland, a company that advises on pensions and employee benefits. The directive means many pension schemes are looking to wind up their existing pension arrangements and set up a new master trust pension plan, Mr Ruddy said.

The letter you received informing you of the wind up will outline what is the "default" position as chosen by the trustees, it should also outline what charges will apply in the new plan, the pensions expert said.

This means if you do not contact the pension provider within the 30-day notification period that your assets will automatically move to the trustee selected default position.

You will likely be offered one of the following two options as the default: to transfer to your former employer's new master trust pension plan; or transfer to a Personal Retirement Bond in your own name. You could also have other options including transferring to your current employer's pension plan or to retire your benefits if you are over the age of 50. As you have a significant benefit built up, Mr Ruddy advises that you seek impartial financial advice on your options.

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