

to thwart mortgage cap

HELPING THE KIDS MAY TURN OUT TO BE A TAX TRAP

JEROME REILLY

PARENTS who want to give their children a helping hand in the form of cash to beat the tough new mortgage deposit rules have been warned

they are in danger of storing up a massive tax liability for their children when they are gone.

Inheritance tax in Ireland is the highest in the world, and the rules governing gifts to children have been tightened by the Revenue Commissioners since last December's Finance Bill. Under the new legislation, sons and daughters can each inherit or receive tax-free gifts

from the parent worth up to €225,000 over their entire lifetime.

On a home valued at just €220,000, a first-time buyer needs an upfront deposit of just over €24,000.

"The temptation for parents who now see their children struggling to get on the property ladder under the new mortgage deposit regime is to gift their children the full amount of that deposit — say €50,000," personal tax expert Oonagh Casey Grehan of Fagan & Partners told the *Sunday Independent*.

"But that €50,000 cash gift

for a mortgage deposit now will eat into the lifetime gift limit of €225,000 — effectively reducing what they can later inherit without a tax liability to just €175,000."

Ms Casey Grehan said that if the child who got help with his or her mortgage deposit subsequently inherits the old family home — worth say €500,000 — then they will be liable to pay inheritance tax (Capital Acquisitions Tax) on the value over €175,000.

They will pay a whopping 33pc in tax on the value of the property over the €175,000 that is left on their lifetime

gift limit. In our example of a €500,000 family home inheritance, the tax bill would amount to €107,250 (33pc of €325,000). That could cause immense difficulties for the inheritor, who may be forced to sell the old family home to meet the tax liability.

She warned families to be aware of this legacy issue when they are thinking about helping out their children with a mortgage deposit now. Parents could also gift €3,000 each to a son or daughter's spouse each year without liability. That's a potential of €12,000 a year in total without a tax liability.