Irish Life

Protection cover for cohabiting couples

1 in 10 people are cohabiting in Ireland. Are you one of them?

Assets passing on death between married couples or civil partners are exempt from Inheritance Tax. BUT this only applies in the case of 'legal spouses' and same sex registered civil partners. All other couples are treated as **strangers** for Inheritance Tax purposes.

The stranger threshold for Inheritance Tax is currently €15,075.
Inheritances in excess of €15,075 are subject to tax at 33%.

Will you have to pay inheritance tax on the death of your partner?

On the death of a non married partner Inheritance Tax will be payable on the total value of all assets, regardless of how long the couple have lived together. With the possible exception of the family home, where a 'cohabiting partner' inherits other property, or a death benefit under an insurance plan, the €15,075 threshold could easily be exceeded.

Example 1

John Brown and Mary Smith take out 'Dual Life' cover of €100,000
John and Mary are joint owners, and pay premiums out of their joint account.
John dies and the €100,000 is paid to his partner Mary Smith because she is the surviving plan owner.

Assuming Mary inherited no other assets, and Revenue agree that she has paid 50% of the premiums, she will be taxed on 50% of the benefit.

So, her taxable inheritance is €50,000.
Threshold €15,075 exempt
Balance €34,925 taxed at 33% = €11,525.

Mary's liability to Inheritance Tax on the plan proceeds is €11,525.

Example 2

Mary Smith takes out a 'Life Policy' with life cover of €100,000 on John Brown's life i.e. Mary is the proposer / plan owner with John as the life assured.
Mary pays the premiums from her own bank account.
John dies and the €100,000 is paid directly to Mary Smith, as she is the legal owner of the plan.

Mary has no liability to Inheritance Tax on the plan proceeds, as she is both the person who receives the death benefit and the person who paid the premiums.

If you think this affects you I would invite you to contact me with a view to reviewing your family and mortgage protection arrangements to ensure that you and your family receive the proceeds of your life assurance plan when you need it most in the most tax efficient way possible.

We advise that you seek professional legal and tax advice as the information given is for guideline only and does not take into account your personal circumstances. The examples included are for guidance purposes only and are not based on any real individual circumstances and should not be constituted as advice in any particular instance.

Information is correct as at December 2012 but is subject to change.

Irish Life Assurance is regulated by the Central Bank of Ireland.