

The Business Review

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Financial Insights

THE RANDOMNESS OF GLOBAL STOCK RETURNS

INHERITANCE TAX PLANNING + SECTION 73

THE COST OF COLLEGE EDUCATION IN IRELAND 2021

The Randomness of Global Stock Returns

It is difficult to predict future returns by looking at the past, as shown by the performance of global markets since 2001.

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HGH	NZL	NZL	SWE	AUT	CAN	ESP	FIN	JPN	NOR	SWE	IRL	BEL	FIN	USA	DNK	CAN	AUT	FIN	NZL	DNK
	AUS	AUT	DEU	NOR	JPN	PRT	НКG	CHE	AUS	DNK	NZL	DNK	IRL	NZL	IRL	NZL	НКG	NZL	IRL	NLD
	IRL	AUS	ESP	BEL	AUT	IRL	DEU	USA	SGP	HKG	USA	SGP	USA	DNK	BEL	NOR	SGP	USA	CHE	SWE
	AUT	NOR	AUT	IRL	DNK	SGP	NOR	ESP	SWE	SGP	GBR	DEU	DEU	HKG	JPN	AUS	DNK	HKG	NLD	USA
	BEL	ITA	NZL	SWE	NOR	NOR	CAN	FRA	HKG	CAN	CHE	NZL	ESP	BEL	AUT	AUT	NLD	NOR	USA	FIN
	ESP	JPN	CAN	NZL	FIN	SWE	SGP	CAN	BEL	JPN	NOR	HKG	NLD	SGP	ITA	USA	FRA	CHE	DNK	NZL
	NOR	CHE	AUS	ITA	CHE	DNK	AUS	DEU	CAN	USA	BEL	AUT	BEL	IRL	FIN	FRA	ITA	SGP	CAN	IRL
	USA	SGP	DNK	DNK	AUS	BEL	DNK	SGP	NZL	AUS	AUS	AUS	JPN	CAN	NLD	NLD	NOR	PRT	ITA	J PN
	GBR	CAN	NOR	AUS	SGP	AUT	PRT	DNK	ESP	CHE	NLD	SWE	CHE	CHE	PRT	PRT	DEU	AUS	FRA	PRT
	DNK	PRT	IRL	ESP	NLD	DEU	ESP	NLD	GBR	NOR	ESP	FRA	FRA	FIN	USA	DEU	ESP	FRA	PRT	CHE
RNS	HKG	BEL	PRT	HKG	SWE	FRA	NLD	GBR	AUT	FIN	CAN	NLD	DNK	AUS	CHE	JPN	JPN	JPN	AUS	DEU
RETURNS	CAN	GBR	FRA	PRT	DEU	ITA	FRA	SWE	NLD	AUT	JPN	CHE	SWE	NLD	FRA	HKG	PRT	NLD	SWE	AUS
	CHE	ESP	HKG	SGP	FRA	NLD	NZL	ITA	PRT	GBR	SWE	NOR	GBR	JPN	HKG	SGP	CHE	SWE	GBR	HKG
	PRT	DNK	ITA	CAN	BEL	AUS	GBR	AUS	DNK	DEU	DNK	USA	ITA	ESP	DEU	SWE	FIN	GBR	DEU	CAN
	NLD	HKG	SGP	GBR	HKG	GBR	ITA	HKG	FRA	NZL	HKG	GBR	AUT	GBR	SWE	GBR	GBR	DNK	BEL	FRA
	FRA	NLD	JPN	FRA	GBR	HKG	USA	PRT	ITA	NLD	FRA	FIN	NZL	SWE	NZL	ESP	USA	ESP	JPN	ITA
	DEU	FRA	BEL	DEU	USA	FIN	CHE	NZL	USA	BEL	SGP	ITA	HKG	ITA	GBR	FIN	SWE	CAN	SGP	NOR
	SGP	USA	CHE	JPN	ESP	CHE	AUT	FIN	CHE	FRA	DEU	CAN	PRT	FRA	AUS	CHE	AUS	ITA	AUT	AUT
	ITA	IRL	GBR	CHE	ITA	CAN	SWE	NOR	DEU	PRT	PRT	JPN	NOR	DEU	NOR	IRL	BEL	DEU	ESP	ESP
	SWE	FIN	USA	NLD	NZL	NZL	BEL	BEL	IRL	ITA	ITA	IRL	CAN	NOR	ESP	BEL	IRL	IRL	NOR	SGP
\	JPN	SWE	NLD	USA	PRT	USA	JPN	AUT	FIN	IRL	FIN	PRT	AUS	AUT	SGP	ITA	CAN	BEL	HKG	BEL
▼ MO	FIN	DEU	FIN	FIN	IRL	J PN	IRL	IRL	JPN	ESP	AUT	ESP	SGP	PRT	CAN	DNK	NZL	AUT	FIN	GBR
_	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020

ANNUALISED RETURNS(%) 2001–2020						
DNK	Denmark	10.2				
NZL	NewZealand	10.0				
AUS	Australia	7.8				
HKG	HongKong	6.0				
USA	USA	5.6				
CHE	Switzerland	5.3				
NOR	Norway	5.2				
SWE	Sweden	5.1				
SG P	Singapore	4.9				
CAN	Canada	4.7				
NLD	Netherlands	4.6				
DEU	Germany	3.3				
AUT	Austria	3.1				
FRA	France	2.5				
ESP	Spain	2.5				
JPN	Japan	2.4				
G BR	UnitedKingdom	1.9				
BEL	Belgium	1.8				
FIN	Finland	-0.6				
IRL	Ireland	-0.6				
ITA	Italy	-0.7				
PRT	Portugal	-0.7				

In EUR.MSCI country indices (net dividends) for each country listed. Doesnot include Israel, which MSCI classified as an emerging marketprior to May 2010. Pastperformance is no guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

- O This table powerfully demonstrates the randomness of global equity returns. It illustrates 20 years of annual returns in 22 developed markets. Each colour represents a different country. Each column is sorted top down, from the highest-performing country to the lowest.
- O The scattered colours suggest it is hard to predict which country will outperform from one year to the next. Austria, for example, posted the highest developed market return in 2017 but the lowest the next year.
- Investors holding equities from markets around the world can have a more consistent investment experience, with higher returns in one market helping offset lower returns elsewhere.

Investment opportunities exist all around the globe—and it's hard to know where next year's best returns will appear.

A globally diversified portfolio can help capture a broad range of returns and deliver more reliable outcomes over time.



Inheritance Tax Planning + Section 73

Are you planning on making gifts of money or other assets to your family in the future? Did you know the person receiving the gift may have to pay Capital Acquisitions Tax (CAT) on it?

However, you, the giver, can set up a savings policy (a life assurance savings policy in a form approved by Revenue) to pay this tax, which can mean a significant tax saving for your beneficiary.

Thinking about tax

If you receive a gift, you may have to pay tax on it. This gift tax is formally called Capital Acquisitions Tax (CAT). Gifts and inheritances can be received free from CAT up to a certain amount. The tax free amount varies depending on your relationship to the person giving the gift (Group Threshold).

There are three different groups. Each group has a threshold that applies to the total amounts of gifts and inheritances you've received since 5 December 1991, from people in that group.

CAT Thresholds from 9 October 2019

Group	Beneficiary	Tax amount*
А	A child (including adopted child, step-children and certain foster children) or minor child of a deceased child of the person giving the gift.	€335,000
В	A brother, sister, neice, nephew or lineal ancestor or lineal descendant of the person giving the gift.	€32,500
С	All other relationships, other than those mentioned in A or B.	€16,250

^{*} CAT only applies to amounts over the relevant group threshold. CAT is charged at 33% on gifts and inheritances.

How does Section 73 relief work?

Mary wants to gift her son Tom a house worth €500,000 in 8 years' time. But she also knows he will need money to pay the gift tax. If Mary gifts him this money it could create an additional gift tax liability.

Mary could use Section 73 of the Capital Acquisition Taxes Consolidation Act 2003. This allows Mary to save for Tom's gift tax liability in a life assurance savings policy (Section 73 policy) over a minimum of 8 years, without causing another taxable gift for Tom.

Calculating the tax liability on the gift of the house

Gift tax liability (€162,000 @ 33%)	€53,460
Taxable asset	€162,000
less Annual Small Gift Exemption in year of gift	(€3,000)
less CAT threshold - parent to child	(€335,000)
Value of house	€500,000

If Mary funds the gift tax liability on the house through a Section 73 savings policy, it should ensure that it doesn't give rise to any further gift tax liability for Tom.

Gift tax saving	N/A	€17,642
Total tax liability	€71,102	€53,460
Gift tax liability of Mary paying gift tax for Tom (€53,460 @ 33%)	€17,642	NIL
Gift tax liability on the house	€53,460	€53,460
So what is the total tax saving?	If gift tax paid without a Section 73 policy	If gift tax paid using a Section 73 policy

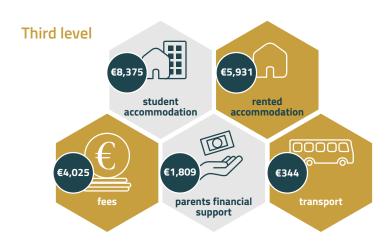


The Cost of College **Education in Ireland 2021**

While the average cost of sending a child to primary and secondary school might seem high, the expenses associated with third level education are in a completely different ballpark. All 'free-fees' third level institutions charge a mandatory student contribution, the maximum rate for 2021-2022 is €3,000 per year. Unfortunately, this student contribution is just one of the costs likely to be incurred. Add to this the increase in travel expenses and the rising cost of rent for students living away from home, and you can see how quickly the cost of putting your child through third level education can add up.

The Zurich Cost of Education Survey 2021 found that when it comes to third level, unsurprisingly accommodation represents a substantial average annual cost.

The average spend for student accommodation was €8,375 but the cost of rental during the academic year isn't cheap either, averaging €5,931.



Annual Cost

With student accommodation | €14,553 With rented accommodation | €12,109 Living at home | €6,178

Lifetime Cost

With student accommodation | €58,212 With rented accommodation | €48,436 Living at home | €24,712

Another noticeable shift is in the mode of transport that third level students are using. Students have switched their main modes of transport to college from cars and cycling to using public transport and walking. It's not surprising that students are trying to cut transport costs given that the average spend on transport to college is €344.

Item	Estimated Cost
Student Accommodation	€8,375
Rented Accommodation	€5,931
Fees	€4,025
Parents Financial Support	€1,809
Transport	€344
	Annual Cost
With Student Accommodation	€14,553
With Rented Accommodation	€12,109
Living at Home	€6,178
	Lifetime Cost
With Student Accommodation	€58,212
With Rented Accommodation	€48,436
Living at Home	€24,712

Building up funds:

While accommodation is the biggest financial drain for college students, other costs such as transport and living expenses can quickly add up. In addition, 73% of parents provide financial support to their children in third level and over the course of a year, the average spend on parent financial support €1,809.

There are ways to reduce the financial burden such as limiting the use of public transport, and indeed if a third level student has a part time job, that will certainly help.

When it comes to financing their children through college, nearly half of parents use savings to pay for their children's college education.

One measure families can take to help avoid putting their households under sudden financial pressure is to ensure early planning around their children's education, adopting measures such as investment savings schemes.

Investment saving schemes are typically set-up at least 7-10 years before a child attends third level education, and can be arranged via an initial lump sum contribution and/or monthly contributions thereafter.

Get In Touch

We want to thank you for taking the time to read our newsletter. If you would like to find out more on any of the items discussed in this edition, feel free to contact us, we are happy to help.

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