

# The Business Review

HERITAGEWEALTH  
FINANCIAL PLANNING

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## Financial Insights

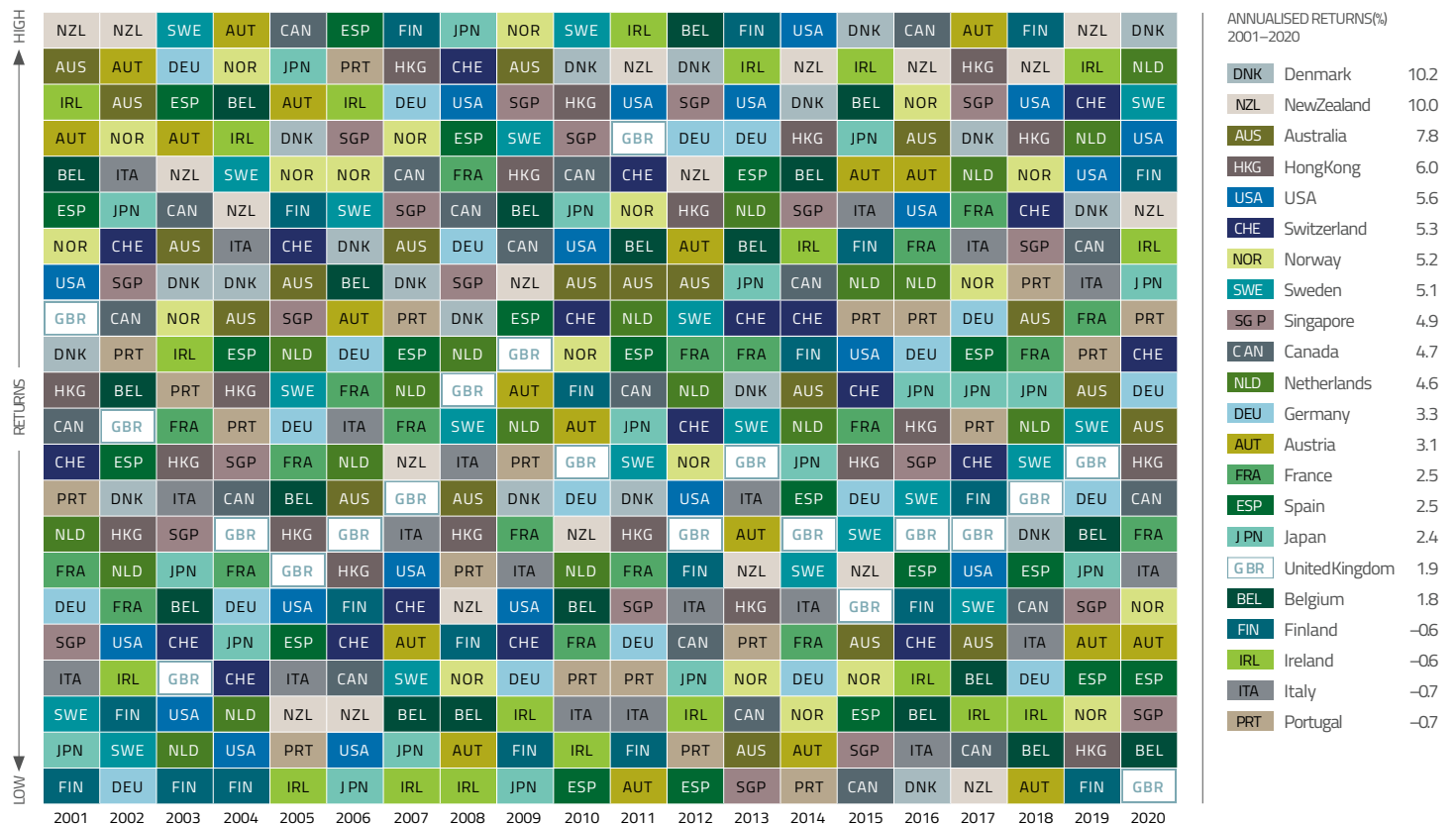
**THE RANDOMNESS OF  
GLOBAL STOCK RETURNS**

**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.



In EUR.MSCI country indices (net dividends) for each country listed. Does not include Israel, which MSCI classified as an emerging market prior to May 2010. Past performance 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.

- 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.
- 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*
<b>A</b>	A child (including adopted child, step-children and certain foster children) or minor child of a deceased child of the person giving the gift.	<b>€335,000</b>
<b>B</b>	A brother, sister, niece, nephew or lineal ancestor or lineal descendant of the person giving the gift.	<b>€32,500</b>
<b>C</b>	All other relationships, other than those mentioned in A or B.	<b>€16,250</b>

\* 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

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

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.

## 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
<b>Gift tax liability on the house</b>	€53,460	€53,460
Gift tax liability of Mary paying gift tax for Tom (€53,460 @ 33%)	€17,642	NIL
<b>Total tax liability</b>	<b>€71,102</b>	<b>€53,460</b>
<b>Gift tax saving</b>	<b>N/A</b>	<b>€17,642</b>

# The Cost of College Education in Ireland 2021

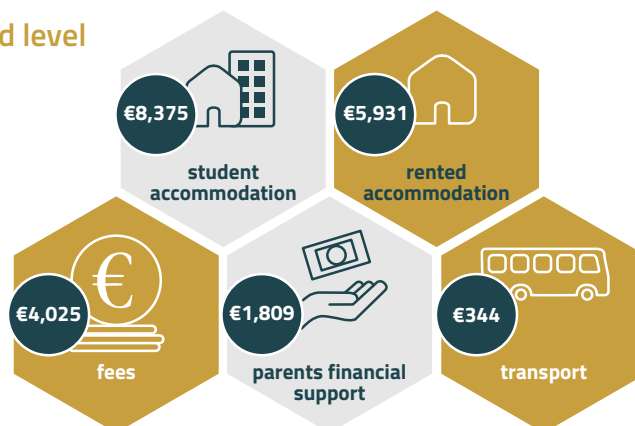
While the average cost of sending a child to primary and secondary school might seem high, the expenses associated with third level education are in a completely different ballpark. All 'free-fees' third level institutions charge a mandatory student contribution, the maximum rate for 2021-2022 is €3,000 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.

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.

## Third level



## 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

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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