Grant Thornton

# Private Clients

## May update

**27 May 2020**


Succession planning
Inheritance planning
Personal tax compliance and planning
Financial planning

# Efficient pension structuring

Debbie Fry

# Company pension vs PRSA
## Key features

| Plan type | Company pension | PRSA |
|---|---|---|
| **Availability** | Available to all salaried employees/directors in pensionable service | If transferring out of an existing pension scheme, and pensionable service with the company is less than 15 years |
| **Access benefits from** | 50 if no longer in pensionable service, 60 - 70 otherwise | 60 - 75 |
| **Latest retirement age** | 70 | 75 |
| **Can funds be split into various pots** | Yes, but all must be retired on the same date and in the same manner | Yes |
| **Can various pots be retired at different times** | No | Yes |
| **Treatment on death in service** | Maximum of 4 times' salary if in active service, but may be less in some cases | Paid in full to Estate |

# Company pension vs PRSA

## Treatment on death

**Company Pension**

€80,000
Salary

€500,000
Fund value

4*salary = €320,000
Paid to Estate

€180,000 used to purchase annuity for spouse/dependents

**PRSA**

€80,000
Salary

€500,000
Fund value

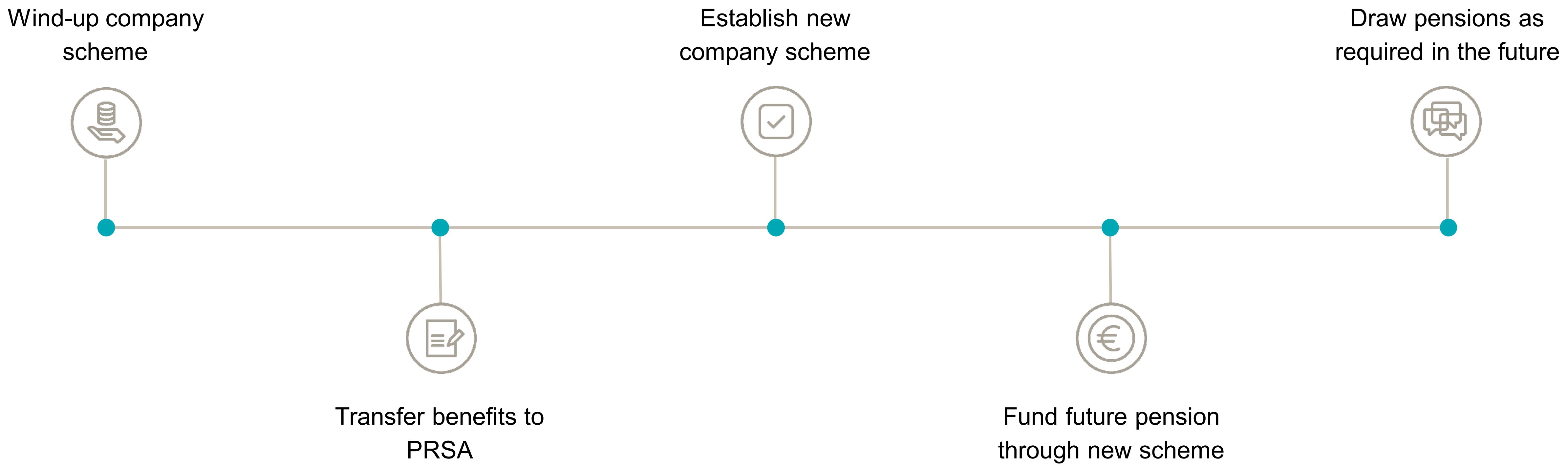
€500,000
Paid to Estate

***Above assumes all contributions paid into company pension were from the employer. Any personal contributions to the company scheme are also payable to the deceased's Estate. Four times' salary rule applies where the employee/director is in active pensionable service with the employer on death.***

# Restructuring your company pension

## Process

The option to transfer your company pension benefits to a PRSA only applies up until your 15th anniversary of pensionable service with your employer. The below outlines the process required to transfer funds to a PRSA, and continue company pension funding in the future.



# PRSA

## Flexibility on drawdowns

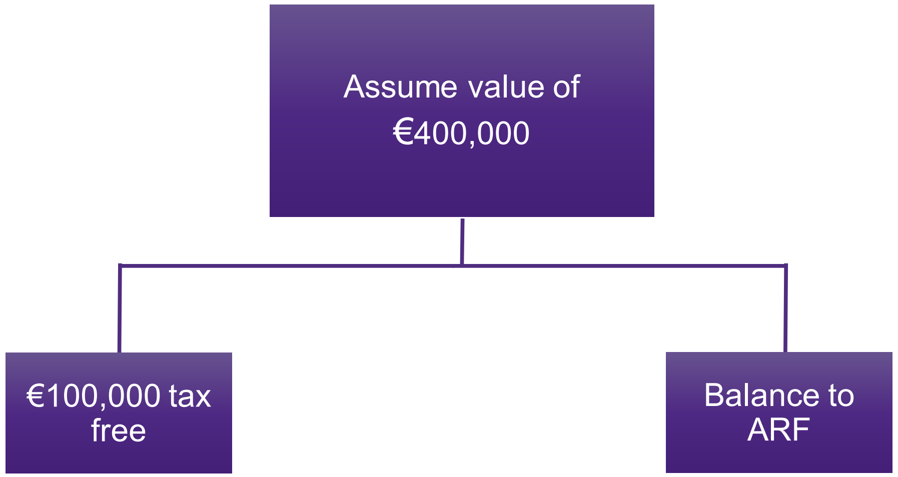
### First drawdown

- Can be accessed anytime between 60 and 75
- You do not have to retire all funds at once
- Any funds which are not accessed, can pass tax free to your Estate in the event of your untimely death

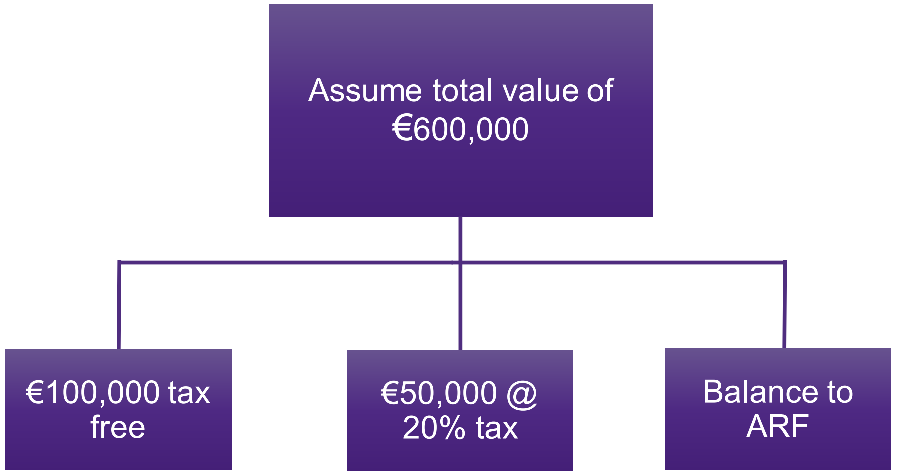
### Subsequent drawdowns

- Must all be retired over time by age 75
- If not accessed, can pass tax free to your Estate in the event of your untimely death before age 75
- There is no obligation on you to retire your benefits in any specific order

**Example: Retire first portion when required**




**Example: Retire balance of funds in the future (can be split over time)**



# Summary

## Pension funding

Optimum through a company pension scheme structure.

## Protect your beneficiaries

Under a company pension scheme, you are subject to the 4 times salary rule. However, under a PRSA Contract it would be paid out in full to your estate

## Pay attention to timing

Option to transfer to a PRSA is only available if you utilise before the 15th anniversary of pensionable service

## Phase your retirement

By transferring your benefits to a PRSA plan, it gives you the flexibility to phase your draw down efficiently.

# Succession Planning

Úna A. Ryan

# Key issues

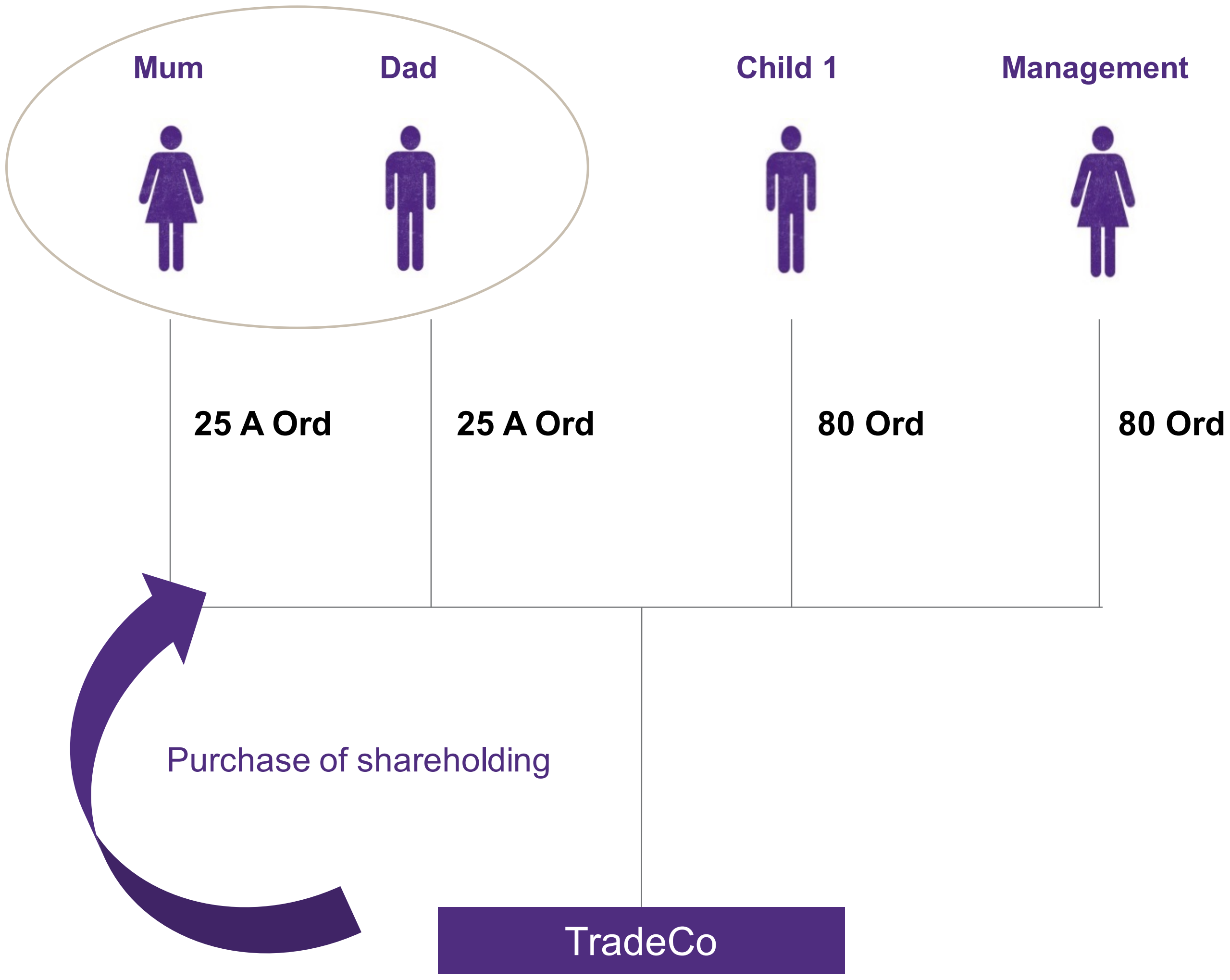
Valuation of company – where connected parties – tax is calculated on market value of the assets

Low market values therefore mean lower tax liabilities for all parties

Current tax position is certain but impact of Covid-19 to be determined

| Objectives | Time horizon | Exit |
| --- | --- | --- |
| Without a specific objective, it is impossible to identify the exact plan for retirement or complete exit from the Company | Have you a plan for the future? | Buyback of shares |
| | Do you require cash now? | Liquidation of company |
| | Do you want to sell the business in its entirety or pass it onto your children and/or other family members? | Sale of company |
| | Do you want a partial exit? | Gift of shares |
| | How will you fund yourself in the future? | Termination payments |
| | | Pension planning / lump sums |

# TradeCo buyback of shares




It is proposed that Trade Co will redeem the following shareholdings:

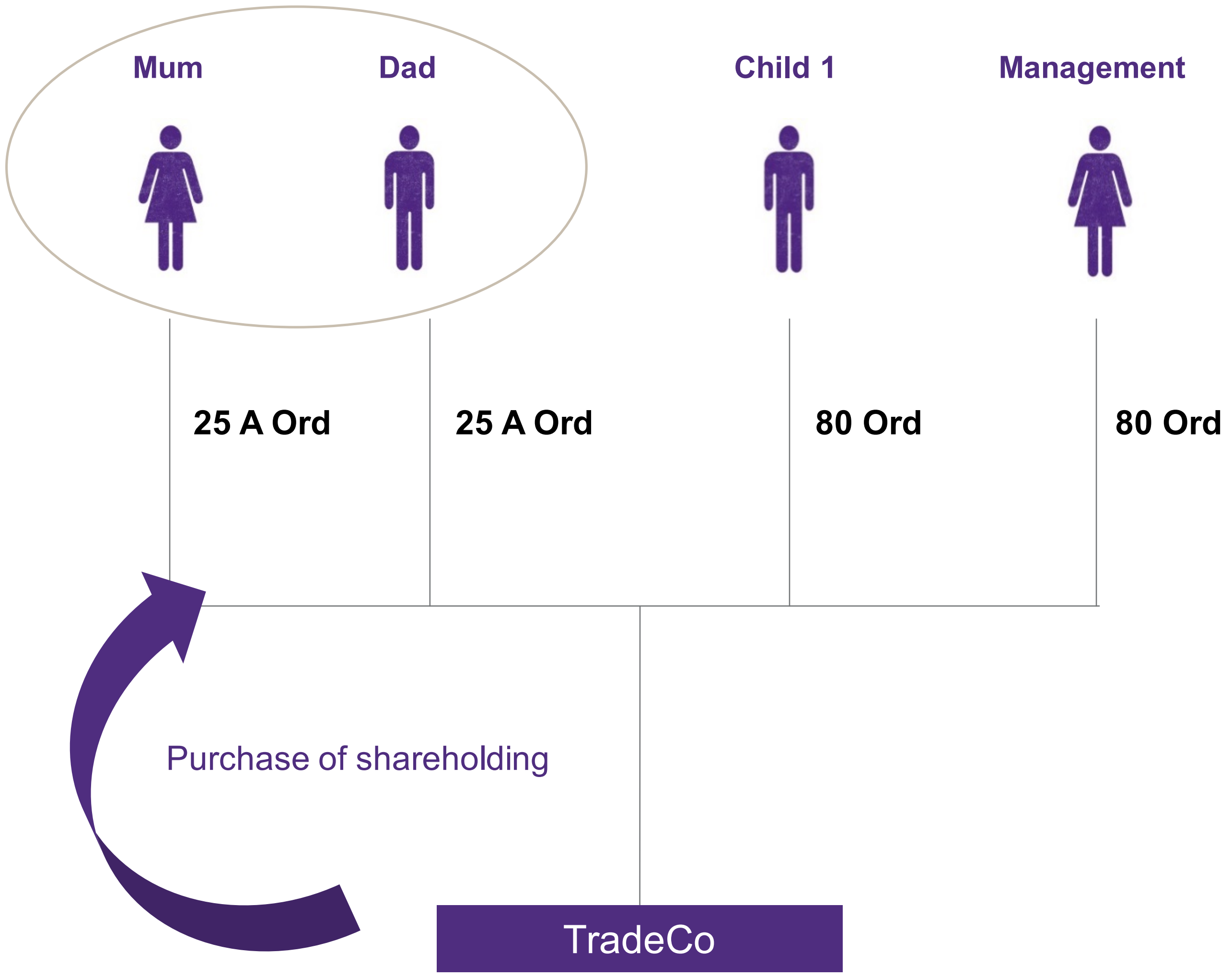
- Mum (25A ordinary shares)
- Dad (25A ordinary shares)

Valuation of TradeCo will be required prior to buyback of shares

If TradeCo does not qualify for CGT treatment on the buyback of its own shares, any amount paid in excess of the original issue price will be treated as a distribution in the hands of the individual shareholder and will be liable to tax at that individual's marginal rate

If the share buyback qualifies for CGT treatment any available reliefs should be availed of – see later slides

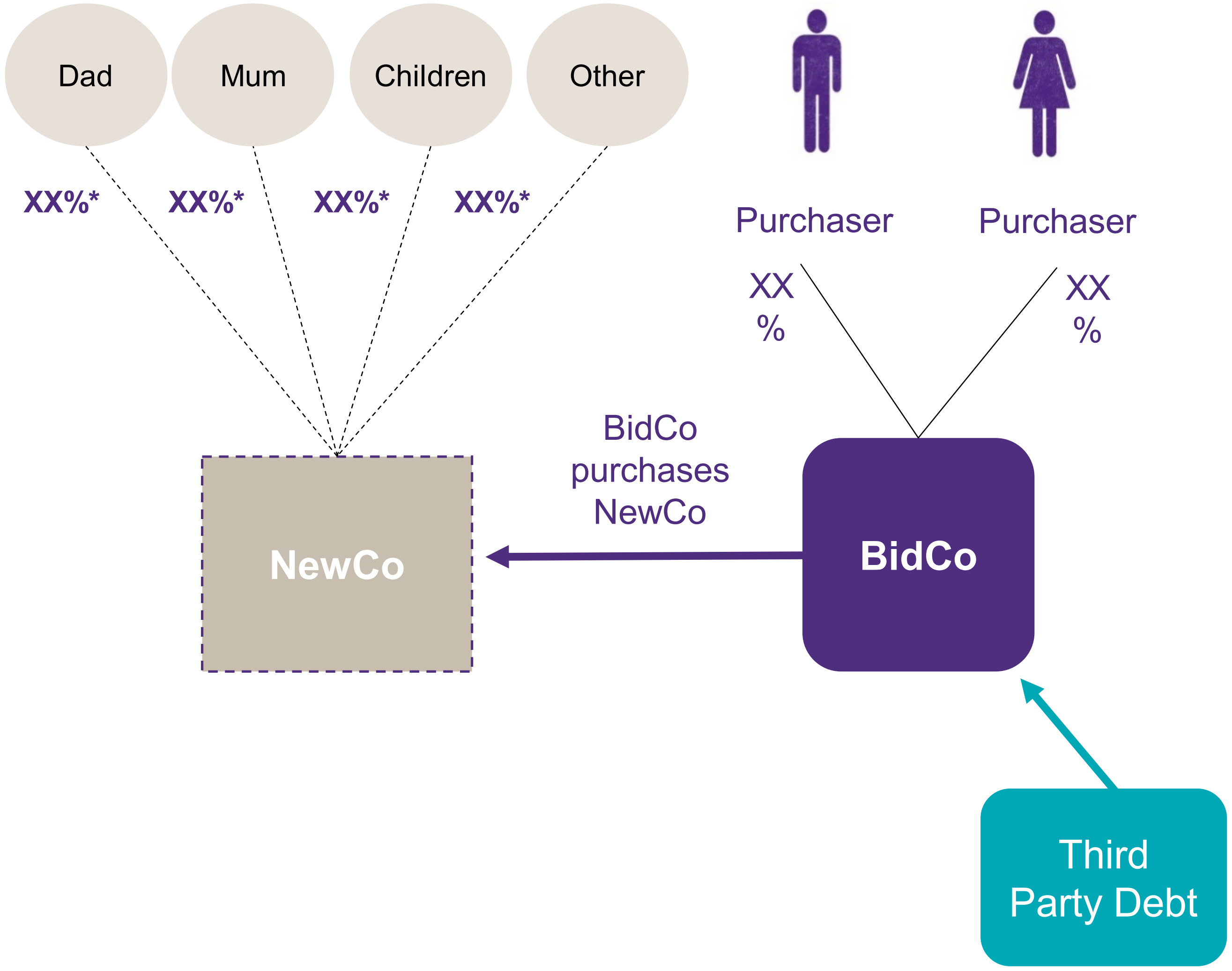
# TradeCo buyback of shares (cont.)




The conditions to be satisfied for CGT treatment to apply on the disposal of Mum & Dad's shareholding in TradeCo are as follows;

- Vendor (i.e. Mum & Dad) to have held the shares for minimum period of 5 years;
- Mum & Dad must be tax resident in Ireland;
- **Mum & Dad must substantially reduce their shareholding in TradeCo as result of share buyback;**
- **Mum & Dad must not be connected with TradeCo following the buyback The redemption of shares must satisfy the "trade benefit test" (see later slide)**
- TradeCo must have the cash to buy out Mum & Dad and have sufficient cash post buyback to meet their working capital requirements
- TradeCo **must have sufficient reserves** to fund the buyback; and
- TradeCo must be an unquoted trading company.

# Sale / Management Buyout (MBO)



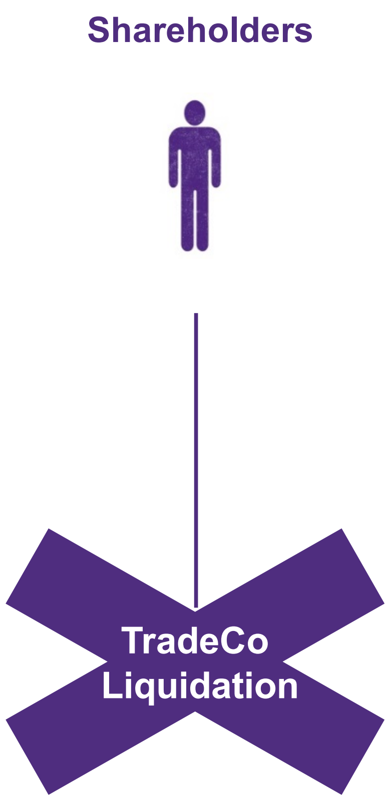

Each shareholder will be subject to Capital Gains Tax on any gain made on disposal of their shareholding in NewCo i.e. where the proceeds received are in excess of their base cost. The current rate of Capital Gains Tax is 33%

Base cost for NewCo shares are derived from part of the original shareholding in NewCo prior to the three party swap undertaking

Entrepreneurs relief can be claimed on disposal where certain conditions are satisfied (see later slide). Entrepreneur's relief provides for a reduced rate of CGT (10%) on the disposal of qualifying shares, subject to a lifetime limit of €1million.

Retirement relief can be claimed on disposal by shareholders over the age of 55, provided certain conditions are satisfied (see later slide).

# Liquidation of TradeCo




TradeCo must be trading at the point of liquidation for entrepreneur relief to apply.

Must be wholly or mainly a trading company and all other conditions must be satisfied

Otherwise consider retirement relief

# Entrepreneur relief – Section 597AA TCA 1997

Relief is by way of a reduced CGT rate:

- Reduced rate of 10% on chargeable gains up to a lifetime limit of €1m
- Any gains over €1m will be chargeable at the standard rate (33%).

Applies to disposals of “chargeable business assets”

- Different definition to that under retirement relief
- Includes the disposal of an asset used for a “qualifying business” and the disposal of shares held in a company carrying on a “qualifying business.
- A “qualifying business” is one other than a business which holds securities or assets as investments, holds development land or develops/lets land and is wholly or mainly trading.

The seller must be a “qualifying person”

- Spend at least 50% of their working time in the services of that company in a managerial or technical capacity; and
- Served in that capacity for 3 of the 5 years prior to the disposal
- Must own at least 5% of the ordinary share capital of the company.

# Retirement relief conditions

Retirement Relief under Section 598/599 TCA 1997 provides relief from CGT for disposals where certain conditions are satisfied:

- Individual making disposal must have attained the age of 55 years;
- Where assets being disposed of comprise shares in a family company, the shares must have been held for a period of 10 years, ending on the date of disposal and it must be a trading company;
- A family company is defined as a company where not less than 25% of the voting rights are held by the individual or not less than 75% of the voting rights are held by the individual's family and the individual holds at least 10%;
- Individual making disposal must have been a working director for 10 years, with 5 years spent working full-time.

Full CGT relief would be available on the disposal of shares to the shareholder's children. There is a limit of €3m if over the age of 66.

Where shares are disposed of to other family members or third parties, there is a limit of €750,000, or €500,000 if over the age of 66.

Where the limits are exceeded the entire consideration is taxable (however marginal relief may apply to provide some relief).

It is not necessary for the shareholder to actually retire.

# Reducing your CAT liability

Liam Naughton

# Capital Acquisitions Tax (CAT)

You do not have to pay CAT on a gift or inheritance if its value is below a particular group threshold. The threshold you use depends on your relationship to the person who gave you the gift or inheritance. You must pay CAT on any remaining value above that threshold.

### Group A - €335,000

The person receiving the gift or inheritance is a child of the person giving it.

This includes adopted children, step children and some foster children. In certain circumstances a parent taking an inheritance from a child qualifies for Group A. Where the parent takes full and complete ownership of the benefit Group A applies.

### Group B - €32,500

The person receiving the gift or inheritance has a family relationship with the person giving it.

This includes a parent, brother, sister, nephew, niece, grandparent, grandchild, a lineal ancestor or a lineal descendant of the person making the gift.

### Group C - €16,250

The person receiving the gift or inheritance has a relationship with the person giving it which is not already covered in Group A or B.

# What is Section 72 cover?

## Who is it suitable for?

- Individuals who want guaranteed protection for life, with payments that don’t change
- Individuals expected to leave a significant inheritance tax liability behind on death
- Especially those who will pass on illiquid assets such as property, and do not wish for their family to liquidate assets to cover an inheritance tax liability

## How is it structured?

**Typical structures for lives assured:**

- **single cover** means that the plan covers one person, and will pay out once, on their death;
- **joint life second death cover** means that two lives are insured under the plan, with the benefit paid on the second and final death of the two lives assured.

**Premiums:**

**Guaranteed premiums** mean the monthly cost of the plan does not change, from the start date to cessation or death.

**Level cover:**

**Level cover** means the level of benefit does not increase or decrease over time, which typically goes hand in hand with level premiums. This option offers the policyholder a level of certainty in respect of the plan’s cost and long term benefits

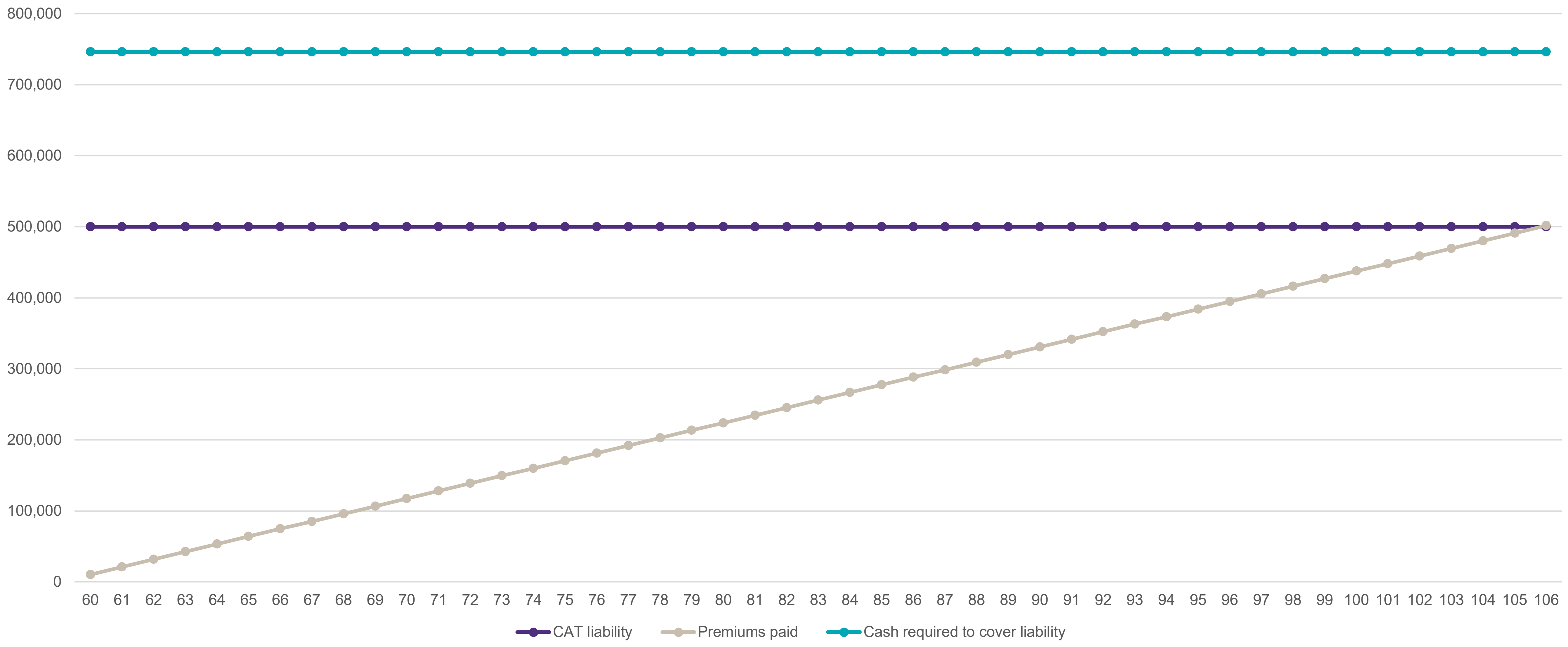
# Case study

| Age of commencement | Age 60 | Age 70 |
|---|---|---|
| Lives assured | Husband and wife | |
| Basis | Joint life second death | |
| Sum assured | €500,000 | €500,000 |
| Monthly premium | **€889.20** | **€1,741.66** |
| Total paid age 100 | **€426,816** | **€626,998** |

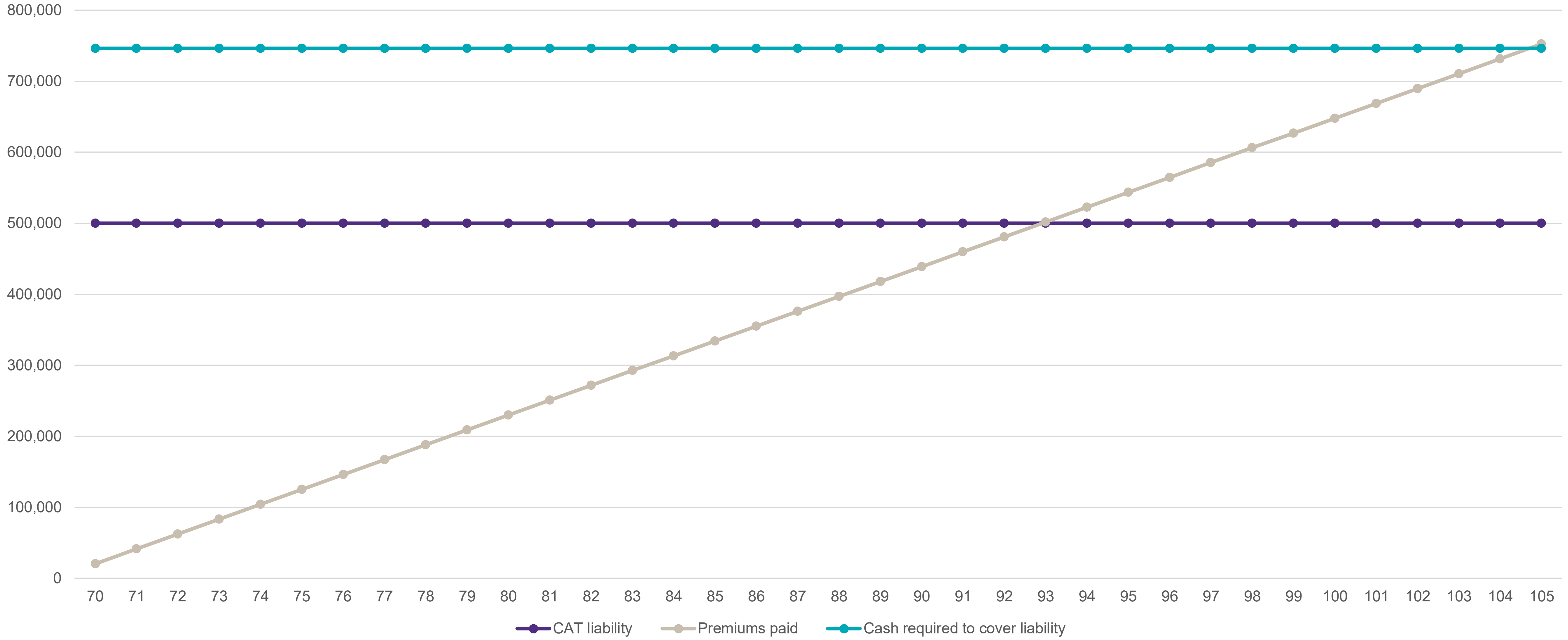
**Notes:**

1. *all quoted premiums are indicative, and actual premiums will be subject to a full medical underwriting process*
2. *these figures assume a non-smoker status for both lives*
3. *the quoted monthly premiums include the 1% government levy.*

# Cost-benefit commencing age 60



# Cost-benefit commencing age 70



# Summary

### Don't over-insure

Excess cover is paid to your Estate and subject to CAT.

### Highly effective for illiquid assets

Does not force beneficiaries to sell assets in order to fund CAT liability.

### Plan earlier

Starting cover at a younger age reduces the impact on cash flow

### Age restrictions may not apply

Eligibility can be more lenient where there is an age gap between spouses.

# Topics for discussion

Ollie O'Connor

# Possible & probable

- Pension levy
- High earner levy
- Retirement / Business Asset / Entrepreneur Relief(s)
- Wealth tax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These slides are not considered to be tax advice and no reliance should be placed on the information contained therein.

These slides set out our understanding of the Covid-19 Government Supports based on information currently available. The information contained in these slides does not purport to be comprehensive but is purely for guidance and discussion purposes only. https://www.revenue.ie/en/employing-people/documents/pmod-topics/guidance-on-operation-of-temporary-covid-wage-subsidy-scheme.pdf

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# Our dedicated team

## Oliver O’Connor

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### Experience

Oliver joined Grant Thornton in 1998 as a trainee and appointed director in the Audit and Assurance department of the practice in 2003, before moving to Grant Thornton Financial Counselling. He is a director of Grant Thornton Financial Counselling Limited, the financial advisory arm of the practice, providing financial advice to both corporate entities and individuals.

Oliver has significant experience in structuring the personal financial affairs of company directors and shareholders together with specialist sole traders in a tax efficient manner. He works closely with the tax planning department of the firm to ensure that client’s financial objectives are being met.

Oliver also provides corporate pension and financial advice to many single member and multi member entities. This advisory service encompasses all matters from initial recommendation and set-up to the eventual extraction of funds at retirement.

### Sector experience

Oliver provides a complete financial advisory service to a wide range of clients, both personal and corporate, combining his significant commercial and business advisory experience.

### Professional qualifications and memberships

Oliver is a member of the Chartered Accountants Ireland (CAI), is a qualified Chartered Tax Consultant and is a Qualified Financial Adviser. He holds a Bachelor degree (BA) in Accounting and Finance from Dublin City University (DCU).

## Úna Ryan

Director – Tax

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### Experience

Úna has vast experience on corporate and individual tax planning solutions in respect of debt restructuring, corporate restructuring including tax due diligences, hive-outs, hive-downs, rights issues, share buybacks, tax efficient pre-sale and post-sale restructuring.

She has extensive experience on estates and trusts for high net worth individuals including anti-avoidance provisions, estate planning and cross border estate tax issues and offshore trusts.

Úna regularly contributes to the Irish Tax Institute, Chartered Accountants’ House and STEP educational programmes and currently lectures Revenue Law on the LLB law programme with Griffith College

### Professional qualifications and memberships

A degree in law (BCL) from University College Dublin (UCD), an LLM in Electronic Commerce Law from University College Cork (UCC) and is an Associate of the Irish Taxation Institute (AITI), an Associate of the Chartered Secretaries & Administrators (ACIS) and is a qualified Trust and Estate Practitioner (TEP).

# Our dedicated team

## Debbie Fry

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### Experience

Debbie joined Grant Thornton in 2014. Prior to this she worked in a number of the leading Financial advisory brokerages in the Financial Services industry.

Debbie manages our corporate solutions team which offers corporate benefits advice as well as the management of both pension and risk benefit schemes for employees.  In addition to this, she manages a portfolio of individual clients, including pensioneers, company executives, self employed and SME business owners.

Debbie also has experience in compliance, consumer protection and risk management therefore ensures our client services administration is in line with all regulatory guidelines.

### Professional qualifications and memberships

Debbie has been working in wealth management since 2002 and is a Retirement Planning Adviser and Qualified Financial Adviser through the LIA.

She also holds a University Diploma in Financial Services through the LIA as well as a Professional Diploma in Compliance and a Professional Certificate in Consumer Protection Risk, Ethics and Culture in Financial Services through the Institute of Bankers.

She also holds a Bachelor’s Degree (BA) in Sociology and Economics (Spec) from NUI Maynooth.

## Liam Naughton

Associate Director – Wealth Management

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### Experience

Liam joined Grant Thornton in 2016. Prior to this he gained Big Four experience, focusing on personal wealth management for clients.

Liam specialises in financial planning and wealth management for individuals, and is responsible for a portfolio of clients, including high net worth individuals, company executives, and SME business owners.

Liam also has experience in overseeing the management and performance of large investment portfolios for high net worth clients and non-governmental organisations, regularly liaising with and reviewing the performance of fund and investment managers, to ensure managers act within each client’s specified mandate.

### Professional qualifications and membership

Liam has been working in wealth management since 2009 and is a Certified Financial Planner (CFP®), Retirement Planning Adviser and Qualified Financial Adviser through the LIA. He also holds an MSc. in Financial Services from UCD, and a Bachelor’s Degree in Business Studies (Accounting and Finance) from the University of Limerick.

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