Saving for Education

SAVING FOR EDUCATION FEES TAX EFFICIENTLY

Becoming a parent is a great gift that hopefully bestows a lifetime of joy and memorable experiences. As parents, we always seek for our children to have a better life and more opportunities than we had growing up.

A good education opens the door to endless possibilities. Despite the existence of “free” education, the average annual costs of spending a child to primary school each year is €473, and for a child entering secondary school, that figure goes up to €1,040 per annum. These costs can sometimes be difficult for parents, with a recent survey showing that 59% of parents end up getting into debt to cover these costs [1].

Where practical, investing the monthly children’s allowance in a savings plan would build up a substantial fund which could be used to cover or contribute to the cost of 2nd or 3rd level education for your children. The earlier such an investment is initiated, the greater the future potential fund will be when you seek to access it.

A similar plan could be used to avail of something called the Small Gifts Exemption. Capital Acquisitions Tax or CAT is applied to the beneficiaries of gifts and inheritances, once a certain threshold is passed. These thresholds are lifetime amounts based on the relationship between the giver and the receiver. The Small Gifts Exemption allows for gifts of up to €3,000 pass between 2 people each year without generating a tax liability on the person in receipt of the gift.

There is no limit on the number of gifts an individual can make to others. Not only is it possible for grandparents to assist in funding their grandchildren’s education, but using this exemption, they can do so in a tax efficient manner. In addition, it facilitates the transfer of wealth from one generation to another without generating a tax charge.

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An affluent couple could gift €3,000 each to each child or grandchild each year, making a maximum annual tax-free gift of €6,000 per child or grandchild per annum.

We're living in a low interest rate environment. There is no benefit to lodging these sums into a bank account, unless you are purely concerned with protecting the capital amount. Even then, you must contend with the effects of inflation on the real value of the bank balance. Using a life assurance investment policy, written in trust, these gifts could be made every year and generate a return on the investment in excess of deposit interest rates and inflation.

A policy with an investment horizon of more than 7 years has the potential to generate a respectable return without the need to take excessive risk. We will discuss your needs, attitude to risk, and capacity for

loss to ensure that the fund selected is in line with your own viewpoint. Partial encashments will be allowed so that the investment can be used to fund 2nd or 3rd level fees as they fall due, without penalty. Please remember that any investment growth generated does not impact on the CAT threshold. Rather, there will be exit tax payable on the growth at a rate of 41% on exit from the policy or every 8 years..

We look forward to helping you help your family. Please talk to a member of the MoneyCoach team today

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[1] Third Level Education study, The Irish League of Credit Unions. 2015