Standard Life

Savings and investment

Technical questions

For financial advisers only

We want to help you get the answers you need quickly. Here are questions relating to life investment policies that are often asked. If the answer to your question is not here, don't worry, just drop us an email and we will do our best to find the answer for you.

Contents (click on the question to get the answer)

Need help?

Get in touch with our Technical Solutions team by phone or email technicalsolutions@standardlife.ie

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What is insurable interest?

Insurable interest exists in something or someone if loss or damage to that person or thing would cause the policyowner to suffer a financial loss. It can be identified through ownership, possession or through a direct relationship. For example, you have an insurable interest in your own house but not in your neighbour's.

In the case of a life investment policy, if a person wants to insure someone else, they must show that they would lose financially by that person's death.

A person is automatically assumed to have an unlimited insurable interest in:

- their own life, and
- in the life of their spouse/civil partner

Can a minor be a life assured on a life investment or savings policy from Standard Life?

A minor can be a life assured provided they are at least three months old.

Can an additional life assured be added to an existing life investment policy?

Lives assured are set at the beginning of the policy. An additional life assured cannot be added to an existing life investment policy.

Can you transfer ownership of a life investment policy?

Yes ownership can be transferred by assigning a policy to someone else.

Transferring ownership may have tax implications (for example, stamp duty, exit tax, capital acquisitions tax).

Can a single owner life investment policy be transferred into joint ownership?

A single owner life investment policy can be assigned to joint ownership.

Transferring ownership may have tax implications (for example, stamp duty, exit tax, capital acquisitions tax).

What happens when the sole policyowner dies but the life assured is still alive?

When the sole owner of a policy dies, the policy continues as the life assured is still alive. The value of the policy forms part of the estate of the deceased policyowner and the approved personal representatives will manage the policy during the administration of the estate. They can deal with the policy as they see fit, for example, they can transfer the policy to a new owner or they can surrender the policy.

What happens when one life assured dies on a joint life assured policy?

When one of the lives assured on a joint life last survivor life investment policy dies, but there is still a surviving life assured, the policy does not come to an end. No chargeable event will arise because of this death. The chargeable event will occur on the death of the last life assured.

What happens if the sole life assured dies but the policyowner is still alive?

If the sole life assured dies the policy ends.

The value of the policy (normally 101% of policy value) will be paid to the policyowner. Exit tax is deducted as appropriate.

Is PRSI chargeable on the investment gain on life investment policies?

No, the return on life investment policies is paid net of tax and policyowners are not liable to PRSI on this.

How is tax payable on life investment policies?

A gross roll up tax regime applies to investments in life assurance policies since 2001: Exit tax is payable at the end of each 8 year period or when the policy matures, is assigned, is surrendered or on death. These are known as chargeable events.

At the end of an 8 year period, a "deemed disposal" takes place and any growth on the monies invested in the policy is subject to exit tax.

When is exit tax deducted?

Exit tax is only deducted when a chargeable event occurs.

Chargeable events include:

- Maturity of the policy, including where payments are made on death or disability
- Surrender of the policy, either full or partial
- Withdrawals from the policy
- Absolute assignment of the policy, either full or partial
- At the end of each 8 year period

The tax is chargeable only on the investment gain in the policy.

What are the rates of exit tax?

It depends on who the policyowner is:

- Individuals pay 41%
- Companies pay 25%
- Some policyowners are exempt (see Who is exempt from exit tax?)

What type of assignment does not result in a chargeable event?

A chargeable event does not occur where a life policy is wholly or partly assigned

- as security for a debt due to a financial institution
- between a husband and wife or between civil partners
- between a husband and wife or between civil partners concerned by virtue of an order made following the granting of a divorce, or a decree of dissolution or following a judicial separation in the State, or following a similar process in a foreign territory but which is recognised as valid in the State

Exit tax is not deducted in these circumstances.

If a bank surrenders a policy to recover a debt, is it a chargeable event?

Yes.

Who is exempt from exit tax?

Exit tax does not have to be deducted from a payment made to certain policyowners. A Revenue declaration must be completed by the policyowner and sent to the life company in advance, otherwise exit tax may be deducted.

Those exempt include:

- Non-resident policyowners
  - for policies taken out before 30 April 2006, the non-resident declaration may be made either at the point of sale or the point of claim
  - for policies taken out after 1 May 2006, the non-resident declaration must be completed at (or about) the time the life policy commences

Certain resident entities including:

- Another company carrying on life assurance business
- An investment undertaking within the meaning of section 739B TCA 1997
- Charities exempt from income tax or corporation tax under section 207(i)(b) TCA 1997
- Credit unions
- The National Asset Management Agency
- A PRSA provider
- A pension scheme being an exempt approved scheme within the meaning of section 774 TCA 1997 or a trust scheme to which section 784 or 785 TCA 1997 applies, or
- An approved retirement fund within the meaning of section 784A TCA 1997 or an approved minimum retirement fund within the meaning of section 784C TCA 1997

What is the taxable gain on a policy?

- The value of the policy less the total premiums paid, when the policy matures, is surrendered or is assigned in full
- The value of the policy less a proportionate amount of the premiums paid when the policy is partially surrendered
- Where the policy is partially assigned, it is the value of the partially assigned part less a proportionate amount of the premiums paid
- A deemed disposal – the value of the policy less the premiums paid at the end of an 8 year period. Where a further chargeable event occurs after exit tax has previously been deducted at the end of an 8-year period, the tax previously paid is taken into account on the subsequent event.

Can a policyowner reclaim exit tax already paid?

Most policyowners cannot reclaim exit tax. However there are certain policyowners who may reclaim the exit tax deducted.

- Individuals who are permanently and totally incapacitated as a result of personal injury can reclaim the exit tax arising from the investment of compensation awards, where the investment returns are the sole or main income of the individual.
- Trusts set up for public subscriptions for the benefit of individuals who are permanently and totally incapacitated can reclaim the exit tax arising from the investment of the trust funds provided the income from the trust or the investment returns from the investment of the trust funds is the sole or main income of the individual.
- Individuals who received compensation awards for Thalidomide children can reclaim exit tax arising from the investment of such awards
- Individuals who were resident in Ireland and effected policies after 30 April 2006 who had exit tax deducted before 31 December 2015 can reclaim this tax, if they were non-resident when it was deducted.

Exit tax refunds can only be claimed from Revenue.

Does the policyowner have to report a taxable gain?

No, the life company deducts it from the policy and passes it on to the Revenue.

Will a tax charge arise on a life investment policy on the death of a life assured?

Yes a tax charge (known as a chargeable event) will arise if there is a gain on the policy and if the death of the sole life assured or the last surviving life assured will result in payment of the benefits under the policy. The beneficiary may also be liable to Capital Acquisitions Tax.

How is exit tax calculated on death?

Exit tax is charged on the gain on the policy. The additional 1% payable on death is not subject to exit tax.

Can exit tax paid on death be offset against the inheritance tax liability?

Exit tax that has been deducted from a payment arising on death may be used to offset inheritance tax provided:

- The same event must give rise to both exit tax and the inheritance tax
- The exit tax can only be used to offset inheritance tax in respect of the same policy
- The amount of exit tax that can be used is the lower of the exit tax and inheritance tax payable on the same policy and event

The exit tax deducted on death is treated as capital gains tax.

Example

Jack invests €100,000 in a life assurance investment policy. Seven years later, when the policy is worth €140,000 before exit tax deduction, Jack dies and leaves the policy proceeds in his Will to his daughter, Emma, who we will assume has used up her CAT Threshold with other inheritances.

The exit tax deducted from the policy is assumed to be 41% x €40,000 = €16,400, so that the net payout on death is €123,600.

The exit tax offset relief works as follows:	
The inheritance tax payable by Emma on the policy is calculated by reference to the **pre exit tax value** of the policy, and not the actual after exit tax amount received, i.e. inheritance tax is based on a €140,000 inheritance and not €123,600.	€140,000
Inheritance tax (assuming Threshold fully absorbed by other gifts and/or inheritances): 33% x €140,000	€46,200
Credit against inheritance tax for exit tax deducted	- €16,400
Inheritance tax payable on the inheritance of the policy	€29,800
Inheritance tax payable on the inheritance of the policy, as a % of the after exit tax policy value received by Emma: €29,800/ €123,600 =	**24.1%**

Tax on other investment income such as deposit interest may not be offset against inheritance tax.

Laws and tax rules may change in the future. The information here is based on our understanding in June 2017. Your client's personal circumstances also have an impact on tax treatment.

These answers are based on a modern life investment policy and don't cover all scenarios (for example, policies with sums assured, extra benefits, options, net (written before 2001), joint life first death).