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What tax do I have to pay on the sale of my first family home?

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Your Questions

Q I bought my own house in Limerick in the mid-1980s for £31,000, and subsequently inherited my parents' home in 2019, which is now my primary residence. My old house has been vacant since, and I've recently decided to sell the property, currently valued at €230,000. What tax would I be liable for on the sale?

A You must pay Capital Gains Tax (CGT) on gains made from the sale, gift or exchange of an asset such as land, buildings etc, according to Barry Cahill of Taxback.com. The rate of CGT is 33pc for most gains. CGT is only applied to the "chargeable gain", not the whole amount you receive. The chargeable gain of an asset is the difference between the sale price of the house and the amount you paid for it less any allowable expenses, Mr Cahill said.

To work out your CGT liability, you would firstly take into account the original purchase price in the late 1980s of £31,000 and its current market value. As you purchased the house before 2003, you will be eligible to claim indexation relief to reduce your chargeable gain. Indexation relief means that any costs you paid before 2003, related to the asset, are increased to take inflation into account.

You can also subtract deductible purchase and sales costs such as agency fees, legal fees, advertising costs, as well as your personal exemption of €1,270. You will also need to factor in how long the property was your principal private residence, as you will be exempt from CGT for that period of time, Mr Cahill said.

Q We managed to pay off the balance of our mortgage last July. This was after five years since the drawdown of funds. The life policy with the lender runs for another 25 years, covering the initial sum borrowed. I have continued to pay this monthly. Would it be paid out on the reducing balance if we had paid the mortgages full term? I fear, as there was no capital owed, it may not be paid in the event of a death occurring. Should I cancel the policy in this event?

A The most common type of mortgage protection policy is a reducing cover policy. This is where the amount you are covered for reduces generally in line with your mortgage balance, according to Barry McCutcheon, Proposition Lead at Royal London. The other type, level-term cover, gives you the same amount of cover throughout the term of the mortgage. If you continue paying into either type of policy after paying off the mortgage, you will still be covered until the policy expires, in 25-years in your case, Mr McCutcheon said. If you die before then, it will no longer need to be used to clear your mortgage, but any benefit under it will still be paid out by the life company, either to the surviving policy owner, for example, if the policy is on a joint/dual life basis, or to your estate, he said. If it is a reducing-cover policy, the amount paid out will relate to how much your mortgage balance would have approximately been at that time, if you had not paid it off early. With a level-term policy, the benefit will be the original amount insured. If this policy is your only form of life cover, you should speak to your financial broker to explore your options and evaluate the costs and benefits of retaining this policy or taking out new cover, he said.

Q I spent a lot of time working overseas during my career and as a result I am not entitled to a full state pension when I reach retirement age. I have amassed a modest pension of €200,000 which I'd like to access. Do I, however, have to ring-fence a certain portion of this in a special fund for years?

A What you are referring to is an Approved Minimum Retirement Fund (AMRF), according to Glenn Gaughran of the Independent Trustee Company. He said if you had asked this question two months ago, he would have said yes. If you don't have a guaranteed pensionable income of €12,700 per year, you would have had to lock €63,500 of your pension savings away in this fund and only draw down a maximum of 4pc of the fund a year, until you can access the full fund at age 75, Mr Gaughran said.

However, the Finance Bill, which passed at the end of 2021, sees the abolition of AMRFs and the rules around them from this year.

This means that you now have the freedom to choose, once you have drawn down your tax-free cash, to either move your fund into an Approved Retirement Fund (ARF), purchase an annuity, or take the balance as a taxable lump sum.

Need to Know

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