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Case Study 2016

Mitigating inheritance tax and meeting education costs for grandchildren

In 2016 I provided Mr & Mrs J with financial planning advice to mitigate inheritance tax. They were delighted that I recommended they gift money to their grandchildren.

Allan Ross, Independent Financial Adviser, Ware, Hertfordshire

Current situation

Mr and Mrs J met Allan Ross ten years ago when they took financial advice and invested £80,000 into two onshore capital investment bonds worth £40,000 each. The original reason for the investment was to boost their income in retirement as Mr J was still working at the time. They are both now retired. The bonds have grown in value and are currently worth £100,000. They realise that they do not need any income from these investments and it is unlikely they ever will, yet they continue to grow within their estate. The couple's main residence is worth £500,000 and they have other investments in the form of ISAs and cash savings worth £500,000. Mr J also has a personal pension worth over £400,000 which Allan advised Mr J to leave untouched as he did not need to withdraw any of the money.

For a free initial consultation contact Allan Ross on 01920 860 160 or email aross@lonsdaleservices.co.uk

Integrity, reliability and value

How Allan adds value with his independent financial advice

☐ Offered an alternative financial solution

Allan Ross realised how important the couple's grandchildren were to them, so he recommended making a gift to them. Mr and Mrs J approved of this. Allan Ross discussed the likelihood that the couple would pay inheritance tax if they did not engage in inheritance tax planning. He recommended they placed the proceeds of their two onshore capital investment bonds into an offshore bond in trust for their grandchildren.

☐ Recommended a tax-efficient offshore bond as a gift to the grandchildren

As Mr J is a higher rate tax payer, Allan Ross recommended that Mr J sign over his 50% share of the capital investment bonds to his wife who is a non-tax payer to avoid the extra 20% tax that would be paid on his share of the £20,000 gain. The £100,000 was then reinvested into a discretionary trust for their grandchildren via an offshore capital investment bond. The offshore bond was chosen because it had the following advantages:

- ☐ It will allow the trustees to assign full segments of the offshore and onshore bond to the grandchildren when they reach eighteen years of age. As there is a strong possibility that the grandchildren won't be earning anything at that age they will have a personal allowance at their disposal before paying any tax.
- ☐ No tax was paid on the first £5,000 per annum of chargeable gain withdrawn from an offshore bond as the starting rate band for savings can be offset against this type of income.
- ☐ You could withdraw 5% of the original investment each year from the offshore bond without immediate tax implications. This can be rolled over for every year it is not taken. The 5% allowances are included in the final gain calculation on full encashment.
- ☐ Offshore bonds also benefit from 'gross roll up' so the investment within the bond grows free of income tax and capital gains tax at source.

Key considerations when looking to mitigate inheritance tax

- ☐ Discuss future financial costs openly with your adviser.
- ☐ Use cash-flow planning tools to plan for different eventualities
- ☐ Be receptive to using flexible and tax-efficient investment products
- ☐ Consider different ways to mitigate your inheritance tax

Summary

Mr and Mrs J appreciate Allan Ross's financial advice. They are delighted to gift money to their grandchildren whilst still retaining control of the bond as trustees of the discretionary trust. They understand that if Mrs J lives more than seven years after the gift is made there will be no outstanding inheritance tax associated with it.

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T 01920 860 160 **E** aross@lonsdaleservices.co.uk **W** www.lonsdaleservices.co.uk

Ware Office Chequers House Watton Road Ware Hertfordshire SG12 0AA

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