Sanlam

Wealth

Sanlam Onshore Bond

SCENARIO 1: TRUST PLANNING

CASE STUDY

Exploring how one business-owning couple reduced their tax liabilities by organising their assets into a trust structure.

Client details

- A couple aged 63 and 60.
- Employed directors in a successful accountancy business.
- Both in good health.
- One non-dependent son who is looking to buy his first house.

Aim

To retire in five to seven years, when their son will take over the family business.

	Partner 1	Partner 2
Salary (gross)	£43,000	£43,000
Dividends (joint)	£15,750	

Current assets	Value
Primary residence (joint ownership)	£550,000 (mortgage free)
Cash (joint)	£25,000
Investment account (joint)	£450,000
Pension (joint)	£1,450,000
ISA (joint)	£280,000
Total	£2,755,000
Total subject to inheritance tax (IHT)	£1,305,000

Planning needs

- They are concerned about our current IHT liability.
- They would like to maintain the same levels of income after retirement.
- They would like to gift their son with a deposit for his first house purchase.

Proposal

1. Keep the cash
Use this money as an emergency fund for unforeseen circumstances.

2. Sell the assets in the investment account
Capital Gains Tax might be due, but this would be at a maximum rate of 20% as higher rate tax payers compared to IHT at 40%. The clients would also have a Capital Gains Tax annual exemption of £12,300 each to set against any gains.

3. Invest in ISAs
With the £450,000 investment account proceeds, £40,000 (£20,000 each) could be used to maximise the ISA allowance for tax year 2020/21. While there are opportunities for IHT planning with ISAs holding AIM-listed shares, it was agreed that this investment was too high risk.

4. Invest £400,000 in an onshore bond in a discretionary discounted gift trust (DDGT)
The investment bond in a DDGT means the clients can continue to receive "income" while addressing their IHT concerns. 4% of the amount invested (subject to underwriting) could provide the clients with an annual "income" of £16,000, more than they are currently receiving from their dividend income. As this is a capital withdrawal, there would be no immediate income tax tax liability.

5. Outright gift of £50,000 to their son for a house deposit
This would be a potentially exempt transfer. If they were to pass away in the next seven years, it could become chargeable (depending on other gifts and the prevailing nil-rate band at the time).

Things to consider

- The £400,000 gift into the DDGT is subject to underwriting, providing a discount to the actual gift into the trust. Given their age and the client's health. This discount could be significant, and so the actual gift for HMRC purposes could be much less than £400,000.
- The gift into the DDGT would be a chargeable lifetime time transfer and would become chargeable if they passed away within seven years.
- The gift into trust should be done after the outright gift to their son, in case they become chargeable within the next seven years.
- While the gifts of £450,000 (less any discount) will take up some of the nil-rate bands, after a full seven years, this will be regained to the full amount subject to other gifts made.
- Should the clients leave their house to their only son, the residence nil rate band for each individual might also be able to be used to offset against their potential inheritance tax liaibility.

The results

1. IHT liability could be £0 after seven years (assuming the estate remains a similar value and the increase in the residence nil-rate band over the next couple of years as well as the nil-rate band after tax year 2020/21.
2. Potentially lower income tax bills while increasing the amounts the client's receive in a tax efficient manner.

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