Sanlam

Wealth

Sanlam Onshore Bond

SCENARIO 2: RESPONDING TO DIVIDEND INCOME CHANGES

CASE STUDY

Examining how a retired couple can maintain their level of income following a change in the dividend allowance

Client details

- A couple who are both retired.
- Both in good health.

Aim

To maintain income in the most tax-efficient way given the change in dividend allowance.

	Partner 1	Partner 2
Pension income	£40,000	£35,000
Dividends (joint)	£9,900	

Current assets	Value
Primary residence (joint ownership)	£450,000 (mortgage free)
Cash (joint)	£25,000
Investment account (joint)	£330,000
ISA (joint)	£210,000
Total	£1,015,000
Total subject to inheritance tax (IHT)	£1,015,000

Planning needs

- The change in dividend taxation from £5,000 to £2,000 in 2018 means the clients pay more tax, reducing the total household income.
- To maintain the current income levels in the most tax-efficient manner.

Proposal

1. Keep the cash

Use as an emergency fund for unforeseen circumstances.

2. Sell £200,000 worth of 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.

To utilise the £2,000 dividend allowance for each client for this tax year. £130,000 should remain in the investment account. This value on a 3% yielding portfolio would provide a joint dividend income of £3,900 within this allowance.

3. Utilise ISAs

£40,000 (£20,000 each) to be invested to maximise the ISA allowance for the 2020/21 tax year and they can opt to take the natural distributions from the underlying assets tax free to help supplement their income.

4. Invest £160,000 of the proceeds and invest in an onshore investment bond

4% tax deferred withdrawals would yield an "income" of £10,300 (made up of £3,900 in dividends and £6,400 bond withdrawals).

Things to consider

- If IHT becomes a concern, the bond could be gifted to trust to help reduce the liability.
- The type of trust would depend on what access the client require and could affect future withdrawal amounts.

The results

- Increase non-pension income from £9,900 to £10,300 without paying additional tax.
- Utilise the tax and savings allowances, making their investments more tax efficient.
- Positioned for IHT planning for the future with gift of the bond into trust.

enq@sanlam.co.uk

sanlam.co.uk

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