Sanlam Onshore Bond case study

Scenario 3
Maxed out on pensions

Client details

Mr James, divorced, 57 is an orthopaedic consultant for the NHS and has a private practice.
He is a higher rate tax payer.
Has 1 daughter from his previous marriage.
He wants to retire in 3 years and is a member of the NHS final salary pension scheme.

Current Assets	Value
Primary residence	£650,000 (mortgage free)
Holiday Home (Spain)	£250,000 (mortgage free) which he rents out 6 months of the year.
Cash	£30,000
Investment account	£300,000
ISA	£200,000
Pension (DB) current value	£950,000
Total	£2,380,000
Total subject to IHT	£1,430,000

Planning needs

- Concerned his final salary pension would breach the lifetime limit for pension savings.
- Wants to maximise his income tax efficiency.
- Concerned about his current inheritance tax (IHT) liability.

Proposal

1. **Keep the cash.**
   Use 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 a higher rate tax payer compared to inheritance tax at 40%. Additionally, he has an annual exemption of £11,700 for tax year 2018/19. The client does not take income from this investment but the dividends paid are still chargeable to income tax at 32.5%.

3. **Sell the ISA savings.**
   While there are opportunities for IHT planning with ISAs holding AIM listed shares, it was agreed that this investment was too high risk for the clients.

4. **Invest the proceeds from the investment account and ISA (£500,000) into an onshore bond.**
   As IHT planning is a primary concern for this client, this bond should be placed into trust to help reduce the IHT liability the client has. The investment in the bond would be charged at 20% within the fund (less than the income tax charged if left in his investment account) until a chargeable event occurs. The type of trust will depend on what Mr James' aims are for this money, whether he requires access to this and who the beneficiaries will be, but he would be one of the trustees to retain some control of this money and how it was distributed.

5. **Discuss his final salary pension scheme.**
   On current levels of salary and years of service the client could face tax charges for going over the lifetime limit for pensions savings. As this is an employer funded scheme, the benefit he would receive would outweigh the tax he would pay going over his lifetime allowance. So, it is decided that the client will remain as a member of the scheme and continue with accruals and contributions.

6. **Additional investment to the investment bond.**
   As the client wants to maximise the tax efficiency of his income and he has enough income from his salary the rental income he receives could be invested into his onshore bond periodically as steps to reduce the size of his estate and hence IHT liability, subject to the trust allowing this.

Things to consider

- The residence nil rate band will increase by £25,000 each year until tax year 2020/21 when this along with the standard nil rate band will increase in line with CPI.
- His daughter could claim the residence nil rate band to reduce some of the IHT payable on his main residence, if inherited.
- He may retire abroad or reduce the amount of time he rents this property out once retired.
- Regular reviews will help plan for the client's retirement.

The results

Depending on the type of trust used, consideration should be given to the impact of any tax charges when the gift is made to the trust, periodic tax charges and exit charges when money is taken out of the trust and arrangements need to be made to cover these liabilities if applicable.

- Client makes tax efficient savings while he is still working
- The client would pay tax on income taken above the lifetime limit but the benefit of having these accruals would outweigh the tax he would pay.
- The gift of the bond to trust will help reduce his IHT liability and leave a legacy to his daughter.
- Option to take tax efficient income/ lump sums from the bond in future years depending on the type of trust used.

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