Sanlam

Wealth

Sanlam Onshore Bond case study

# Scenario 2: Responding to Dividend income changes

## Client details

Mr and Mrs Jones, both retired.

Both in good health.

**Aim:** To maintain income in the most tax efficient way given the change in dividend allowance.

| Mr Jones | Mrs Jones |
|---|---|
| Pension income: £40,000 | Pension income: £35,000 |
| Dividends: £9,900 (jointly) | |

| Current Assets | Value |
|---|---|
| Primary residence ( joint ownership) | £450,000 (mortgage free) |
| Cash (joint) | £25,000 |
| Investment account (jointly owned) | £330,000 |
| ISA (Mr) | £110,000 |
| ISA (Mrs) | £100,000 |
| Total | £1,015,000 |
| Total subject to inheritance tax | £1,015,000 |

## Planning needs

- Change in dividend taxation from £5,000 to £2,000 means the clients will pay more tax reducing the total household income.
- Clients want to maintain 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 inheritance tax at 40%. Additionally, each client has their annual exemption of £11,700 for tax year 2018/19.

   To utilise the £2,000 dividend allowance each for tax year 2018/19, £130,000 should remain in the investment account. This value on their 3% yielding portfolio would provide the clients with £3,900 of dividend income jointly, within this allowance.

3. **Utilise ISAs.**
   Invest £40,000 (£20,000 each) of the proceeds to maximise their ISA allowance for tax year 2018/19. Opt to take the natural distributions from the underlying assets to help supplement their income, which would be income tax free.

4. **Invest £160,000 of the proceeds and invest in an onshore investment bond.**
   The clients opt to take 4% withdrawals from the amount invested, providing them with an “income” of £10,300 (made up of £3,900 in dividends and £6,400 bond withdrawals).

## Things to consider

- If inheritance tax becomes a concern, they could gift this bond into trust to help reduce the liability.
- The type of trust would depend on what access the clients want or need and could affect the withdrawals they would receive.

## 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 tax efficient.
- Positioned for IHT planning for the future with gift of the bond into trust.



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