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TAX PLANNING

case studies

THE CLIENT

Mrs Rose came to us having been made aware that she had a significant inheritance tax liability by her accountant. Following the death of her husband, she had moved to Lincolnshire and had assets consisting of her residential property worth £450,000, a unit trust and ISA portfolio of £1,050,000, some shares and cash deposits, totalling around £1.9m.

This left her with an inheritance tax liability in the region of £620,000. Mrs Rose also had income of around £70,000 per year, paying 40% tax, but only required income of £50,000 after tax to maintain her desired lifestyle.

OUR ADVICE

We transferred a large proportion of her liquid assets into tax-efficient solutions. Her ISA portfolio was retained as it was already providing a source of tax-free income. Cash deposits were retained to provide a sufficient emergency fund, along with a capital reserve for holidays and other purchases.

Her unit trust portfolio was encashed with £400,000 invested into a Discounted Gift Trust arrangement. The unit trusts had capital gains of around £130,000 on which 28% tax would fall due. An investment was also made into a lower-risk Enterprise Investment Scheme (EIS).

Finally an investment was made into a portfolio of shares on the Alternative Investment Market (AIM).

THE RESULT

Our advice removed the taxable income from her unit trusts and replaced it with £20,000 of annual net income from her Discounted Gift Trust. This achieved her desired net income of £50,000 whilst removing her from the 40% income tax bracket. This plan also immediately removed £221,000 from her taxable estate, the remaining £179,000 falling outside the estate after 7 years.

The EIS qualified for Capital Gains deferral relief which allowed the Unit Trust gains to be deferred indefinitely. This investment also qualified for Business Property Relief (BPR) meaning that it would be free from Inheritance Tax after 2 years. An added benefit was that the investment also qualified for income tax relief which enabled her to reclaim all income tax paid in the current and previous tax years.

The AIM portfolio also qualified for BPR meaning a potential overall Inheritance Tax saving of £360,000. The portfolio allowed full access to the capital at any time, meaning should her cash holdings run low she would not become short of funds.