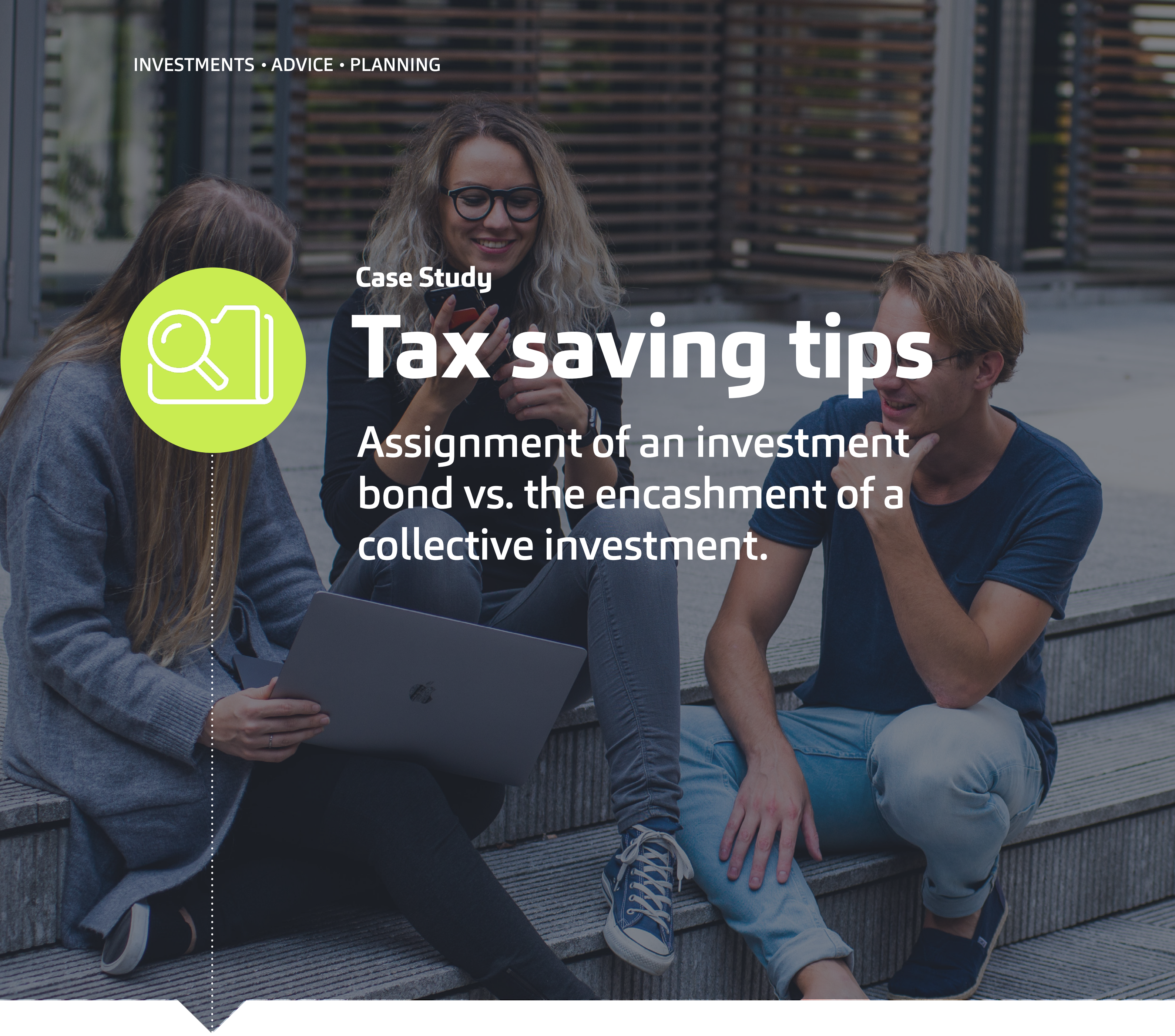


INVESTMENTS • ADVICE • PLANNING

Case Study

Tax saving tips

Assignment of an investment bond vs. the encashment of a collective investment.

Scenario

Phillip would like to invest £150,000, with a view of accessing the funds in 10 years' time to help his daughter get on the property ladder.

Phillip has a few options available regarding investments and is hopeful for a 6% total return on his investments each year.

No withdrawals will be taken during the 10-year period.

Phillip is a higher rate taxpayer and has an annual dividend allowance of £500 available (as of 2024/25), and a Capital Gains Tax allowance of £3,000 in the year of sale.

Option 1 - Collective Investment

Phillip's investment of £150,000 is not held in a tax wrapper i.e. an ISA and has grown to a capital value of £186,510, in addition to annual dividends accumulated totalling £51,720.

He liquidates the investment portfolio to facilitate the gift to his daughter, crystalising a gain of £36,510 during the tax year. The capital gain and dividend income are both subject to tax in line with 2024/25 rates:

- **£6,700 Capital Gains Tax liability** - £36,510 profit minus £3,000 CGT allowance = £33,510 x 20%
- **33.75% tax on dividends** received each year - the first £500 of which are tax-free because of the annual dividend allowance.

Net proceeds to Phillip's daughter are **£231,530.**

! In both scenarios, Phillip's gift to his daughter would be a Potentially Exempt Transfer for Inheritance Tax purposes.

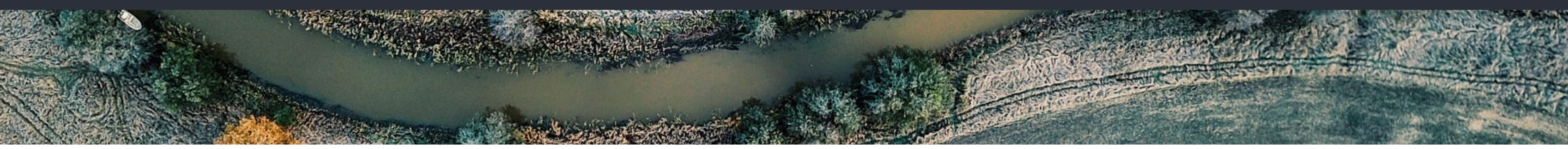
Option 2 - Investment Bond

Phillips investment of £150,000 has grown to £239,720 within the investment bond wrapper. Phillip assigns the investment bond to his daughter.

The bond is no longer assessed personally against Phillip, and from a tax perspective, his daughter is now deemed to have always owned it.

His daughter encashes the bond during the tax year and her taxable income is £10,000. Although the withdrawal of £239,720, of which £89,720 is profit, increases her total income to £99,720, she doesn't pay any higher rate tax.

The gain of £89,720 is divided by the number of years the policy is held (in this case 10 years) and is added to her annual income of £10,000. His daughter's income remains within the basic rate income tax band and as basic rate tax is already deemed to have been paid during the bonds life, **no further tax is due** resulting in a very tax efficient withdrawal of some **£239,720**.



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