

CASE STUDY: TAX PLANNING • INHERITANCE TAX PLANNING

Entrepreneur with funds *from a business sale*

Tim, who is in his late 50s, recently **sold his business for £10 million**. After helping his children onto the property ladder, buying property, and making some charitable donations, he has set aside **£5 million to invest**.

- Tim is still working and plans to continue for another 3-5 years.
- He is an additional rate income taxpayer and will be for the foreseeable future. Therefore, he is conscious that any investment he makes might be liable to additional tax.

Whilst Tim has invested before and is a reasonably sophisticated and knowledgeable individual, he is **acutely nervous of heightened volatility** in the current market and has never invested a sum anywhere near £5 million.

He does have a capacity to take on a **medium level of risk** and has a **long-term investment horizon**.

Tim wants to:



Lower his income tax bill



Invest his funds for long-term growth, to draw upon in the future



Think ahead to mitigate his inheritance tax (IHT) liability



> The Tideway Plan

Tideway set Tim up with:



an **offshore bond**



a **capital gains portfolio**



a **Venture Capital Trust (VCT)**

> The **offshore bond portfolio** allows Tim's investments to roll up on a gross basis without an immediate tax charge.

- Tim also has access to 5% of the original capital per year **without triggering any immediate tax**.
- Tax is payable on the total gain when he withdraws more than the original investment or exceeds 5% per annum, but this is under Tim's control, and he can do this when he is a lower rate taxpayer.
- Tideway has also segmented the portfolio within the bond, as Tim may never need the money. This allows him to **gift some or all of it to his children** when the time is right. Tax will then be payable at their tax rates rather than his.

> The **capital gains portfolio** allows Tim to also target the capital gains allowance and dividend allowance, in order to pay lower rates of tax and continue to fund his ISAs.

> One of Tim's objectives was to **lower his income tax bill**.

The **VCT** we recommended offered him a 30% income tax relief and a tax-free dividend stream.

Whilst a VCT is a higher risk investment, putting a sensible amount in allows him to benefit from the tax relief but not put his assets at significant risk.

> Outcome

With these plans in place, Tim is set for the time being. He will, however, face a significant **inheritance tax liability** in the future. This is the next step in our work together – we will be considering making a **trust recommendation** that will allow him to keep some of his assets free of **inheritance tax**.

- Tim now has an **investment portfolio** that can **grow tax efficiently** with ongoing tax very low, therefore not slowing down the cumulative growth. Without the **offshore bond** structure, **income tax** would be payable immediately at 45%.
- A **future source of income** has also been created when he retires. This will come from the **offshore bond, capital gains portfolio, and VCT**, where ongoing and immediate tax is limited.
- He now also has a method to pass on his wealth to his children when the time is right for them, using the **offshore bond** (he can either pass it on in its entirety or segment it and keep part back for himself).

Get in touch

We can help you organise your finances to provide the income in retirement that you need. Get in touch for a no-obligation chat to see how we can help you.

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