CASE STUDY: GENERATING TAX EFFICIENT INCOME

Generating income *after* divorce

Fiona, in her mid 40s, was referred to Tideway by a family law solicitor after she received £1 million as part of her divorce settlement. She has two children, who at the time were aged 7 and 4 years old.

Following the divorce, Fiona rented a property costing £48,000 p.a. She returned to full time education to do a university course, followed by a PhD, so she knew she would be without any income for four years. She received child maintenance payments from her ex-husband, which covered her living costs but excluded the rental costs.

Fiona's situation and needs:

- The £1 million she received in her divorce settlement needed to ***provide an income*** of **£48,000** to cover the rental payments.
- Fiona was a ***low-risk investor***, and she needed the income from the investments to be **reliable, consistent and sustainable**.
- She was a ***non-taxpayer*** and wanted the income generated to be **as tax efficient as possible**.

The Tideway Plan

We structured a portfolio for Fiona that provided the required income with no immediate tax liability. We initially set up:

an ***Individual Savings Account (ISA)*** | a ***General Investment Account (GIA)*** | an ***offshore bond***

The **ISA** portfolio of £40,000 (two contributions either side of the tax year) was invested in **fixed income investments** which generated an initial income of £2,000 net p.a. The size of the ISA and the amount of tax-free income generated by the investments would increase each year through making full use of the £20,000 ISA allowance.

The **GIA portfolio** of £260,000 was invested in a mixture of fixed income, equities, and alternative assets, but with a significant bias towards lower risk fixed income. The total initial income generated by this portfolio was **just over £12,000 p.a**.

Each year, we crystallised any gain made within the **GIA** to make use of Fiona's **capital gain tax allowance**, and transferred £20,000 annually from there to her **ISA**.

The income from the bond funds used her **personal income tax allowance** and **savings allowance**; the dividends from the equity funds used her **dividend allowance**. By structuring the income this way, **Fiona did not have to pay any tax**.

The **offshore bond** of £700,000 was also invested in a mixture of assets, again with a fixed income focus, but with slightly more equities than the **GIA** to provide diversification and longer-term growth. We used the **5% withdrawal allowance** from the offshore bond to provide Mrs F with an annual income of £35,000 net.

Outcome

We achieved Fiona's required income of £48,000, without paying any tax, by using a blend of solutions:

***Three* different accounts:**

- ISA
- General Investment Account
- Offshore Bond

***Three* different asset classes:**

- Fixed income (including gilts)
- Equities
- Alternatives (property, infrastructure)

***Six* different tax and financial planning allowances:**

- ISA allowance
- Personal income tax allowance
- Savings allowance
- Capital gains tax allowance
- Dividend allowance
- The 5% withdrawal allowance from the offshore bond

20+ different investment funds and 100s of underlying companies!

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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