# Investment, Income, Intergenerational planning – The role of the Onshore Bond

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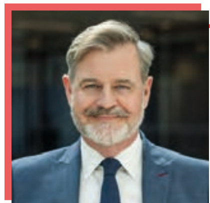

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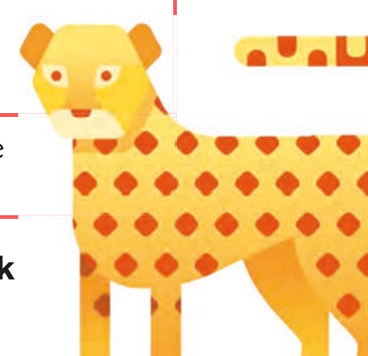
## SYNOPSIS

This session will cover the IHT efficiency and regular access to Settlor payments offered by Onshore Bonds and Discounted Gift Trusts, the access to capital and IHT mitigation benefits of Onshore Bonds and Loan Trusts and the impact of taxation on the returns available from Onshore Bonds, Offshore Bonds and Collectives.

## LEARNING OBJECTIVES

- Understand how an Onshore Bond and Discounted Gift Trust can be an effective IHT tool whilst still providing access to regular payments for the Settlors
- Appreciate the flexibility of the Onshore Bond and Loan Trust in providing access to capital whilst helping to achieve an element of IIHT mitigation
- See the impact of taxation on the returns available from Onshore Bonds, Offshore Bonds and Collectives

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# Learning Objectives

**After attending this session, you'll be able to:**

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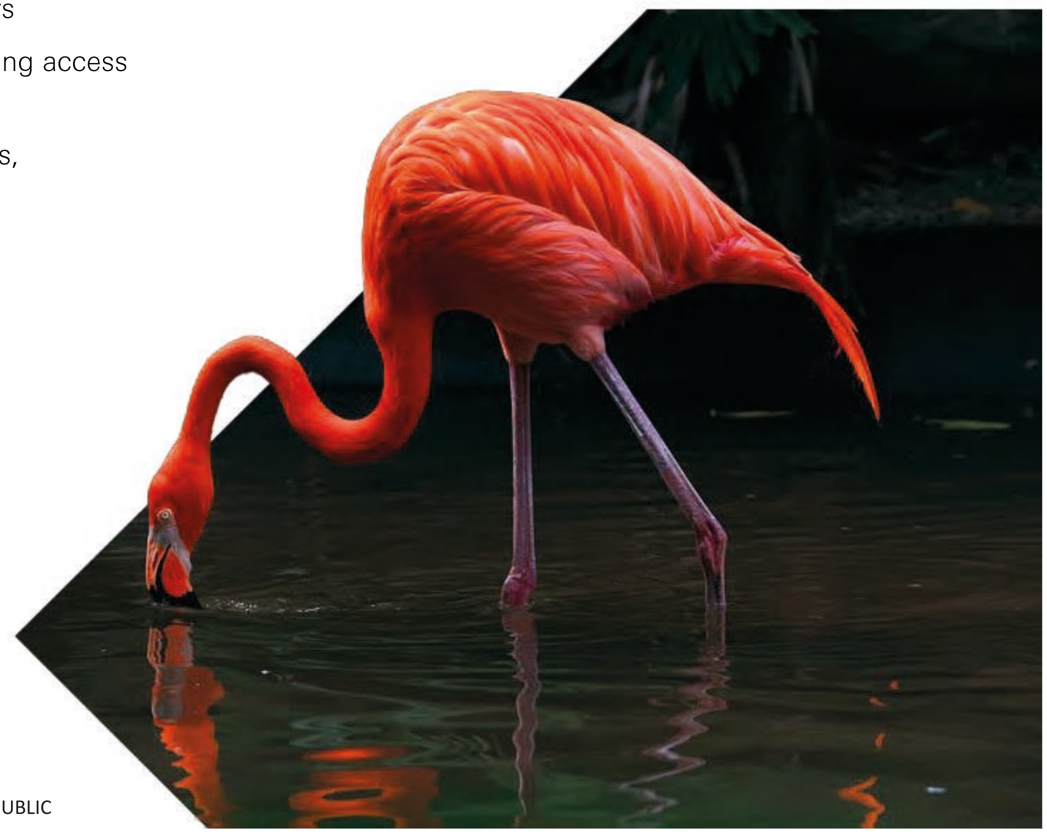

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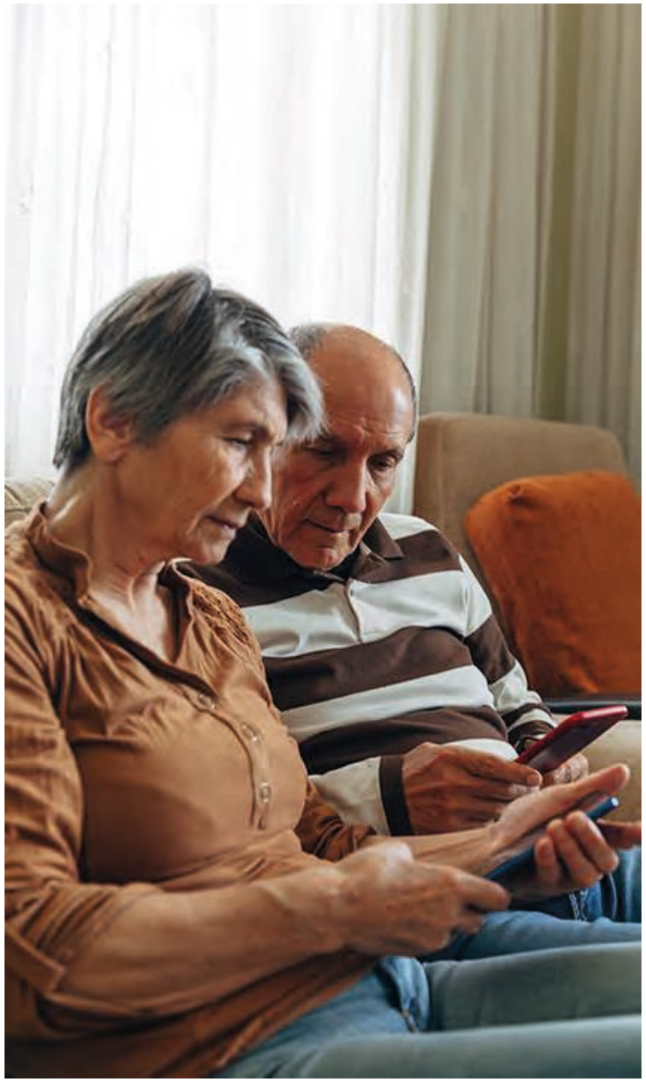
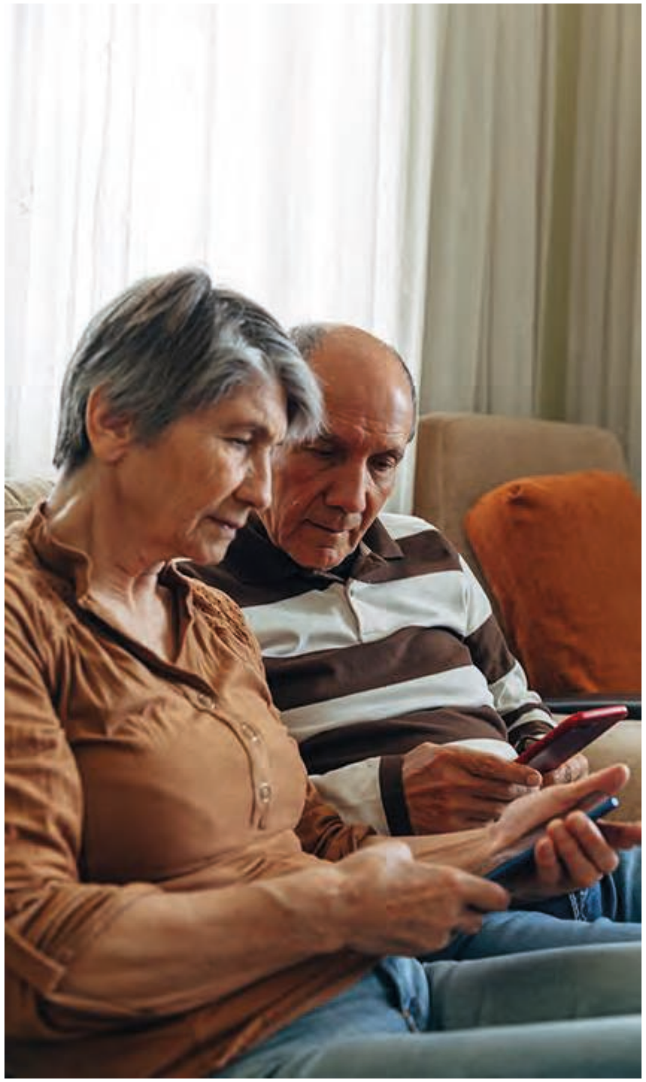


# Putting it into Practice – Theo Snr & Olympia

## The “Financial Facts”

- They are considering funding their grand daughter’s university fees and living costs from their ISAs to help out Theo Jnr & Ingrid.
- Cost of living increases are concerning them
- They receive an income from a buy to let property and pensions which they want to supplement



# Putting it into Practice – Theo Snr & Olympia

## The objectives for their savings and investments

- They are aware that they are advancing in years and wish to make provision to structure their cash and unwrapped investments to provide additional income and enable tax effective intergenerational wealth transfer to take place with residual funds on their death
- If their offer of help is accepted their ISAs will fund their granddaughter's full university costs and will subsequently be retained for potential future care fees
- Buy to let property to be disposed of once the new income stream from current planning is in place
- Home to be passed onto Theo Jnr in the fullness of time
- No substantial lifetime gifts have been made to date…but they are interested to know if there is anything that they can do now that would get "IHT Planning started" but retain a regular flow of payments throughout their lives

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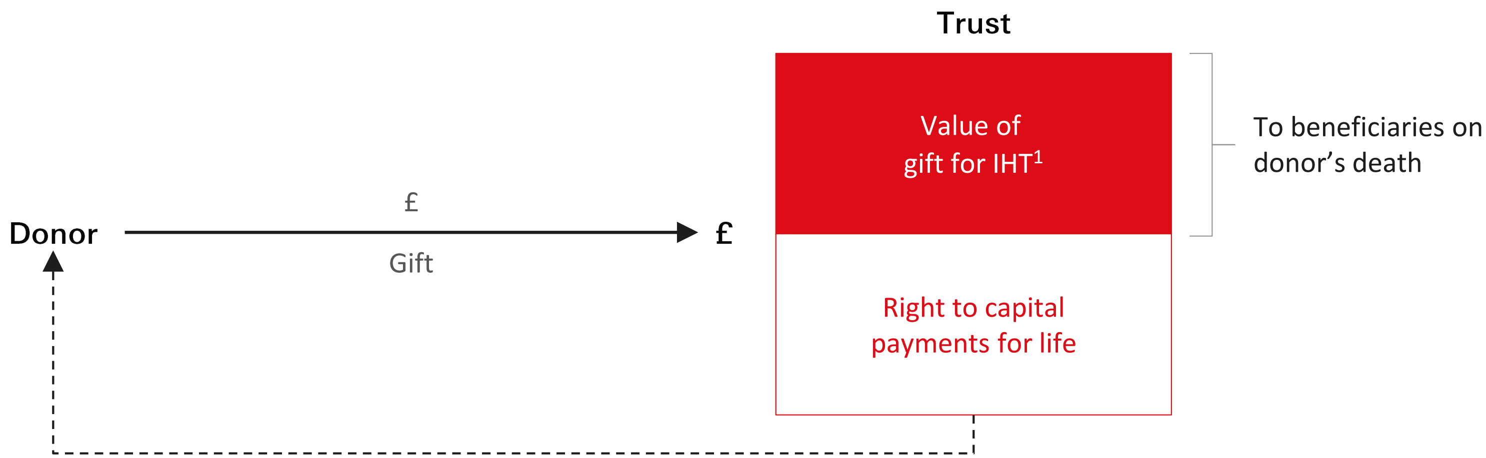
# A possible answer … Discounted Gift Trust




No DOTAS if "established practice" pre 1 April 2018

[1] Relevant for seven years from gift

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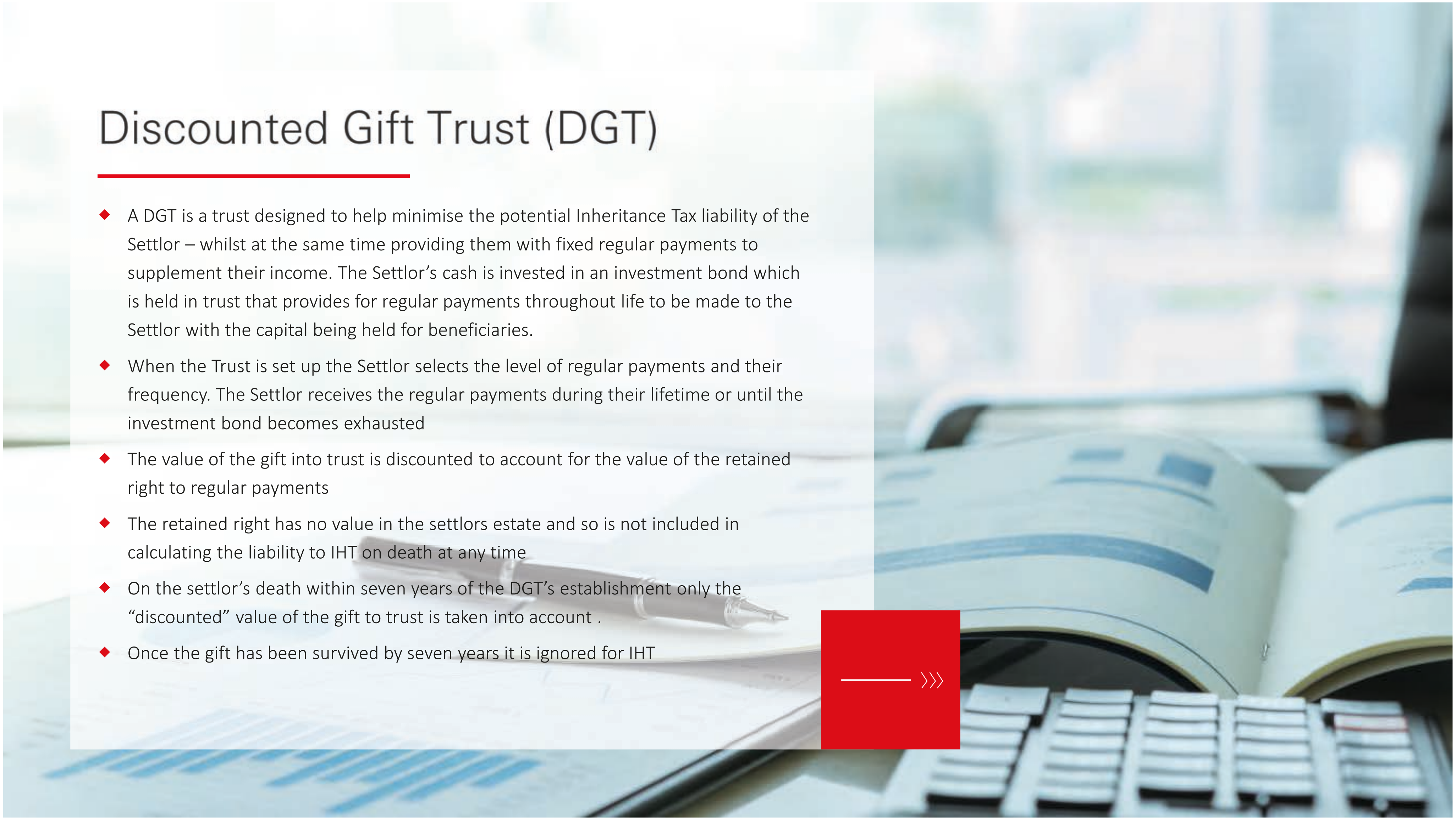


# Discounted Gift Trust (DGT)

- A DGT is a trust designed to help minimise the potential Inheritance Tax liability of the Settlor – whilst at the same time providing them with fixed regular payments to supplement their income. The Settlor's cash is invested in an investment bond which is held in trust that provides for regular payments throughout life to be made to the Settlor with the capital being held for beneficiaries.
- When the Trust is set up the Settlor selects the level of regular payments and their frequency. The Settlor receives the regular payments during their lifetime or until the investment bond becomes exhausted
- The value of the gift into trust is discounted to account for the value of the retained right to regular payments
- The retained right has no value in the settlors estate and so is not included in calculating the liability to IHT on death at any time
- On the settlor's death within seven years of the DGT's establishment only the "discounted" value of the gift to trust is taken into account .
- Once the gift has been survived by seven years it is ignored for IHT

# Discounted Gift Trust – Onshore Investment Bond

**£600,000 – Total Investment**

Settlors

Theo Snr age 81 next birthday

Olympia age 79 next birthday

£280,630

£319,370

Onshore Bond

Discount split
£134,263 – Theo Snr
£146,367 - Olympia

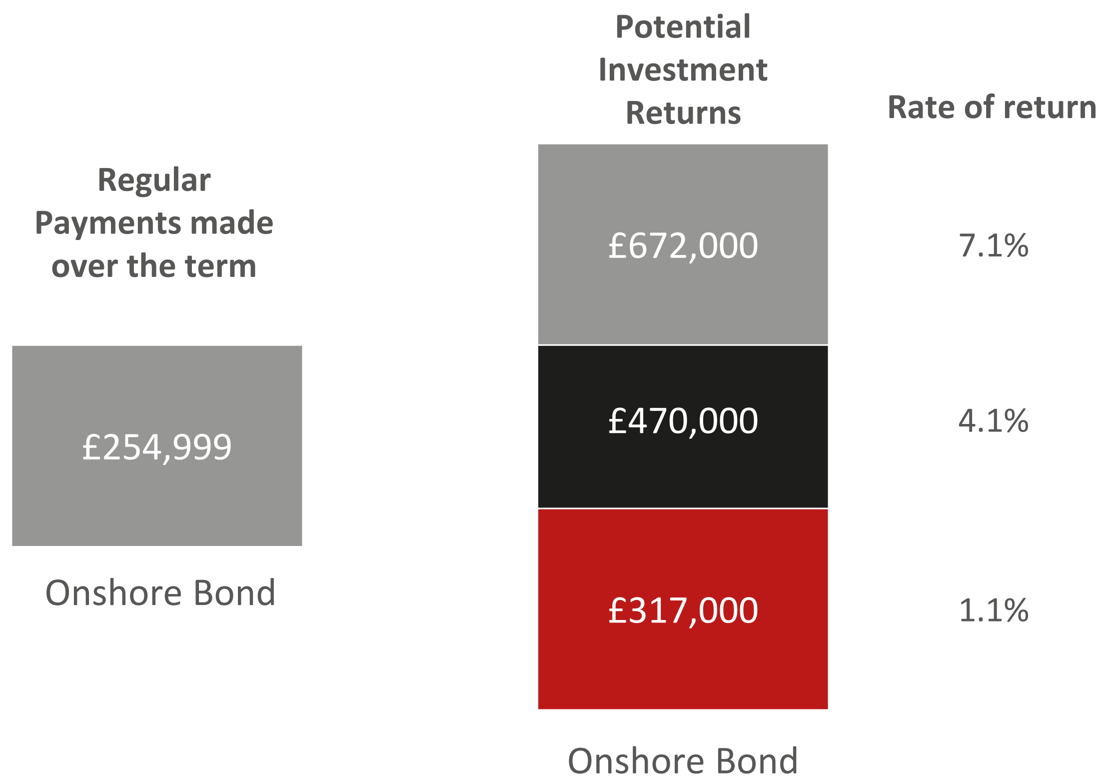
Discounted Gift split
£153,633 – Theo Snr
£165,737 - Olympia

# And after 10 Years

Ongoing Adviser fee 0.75%

Income on original investment 4.25%

Monthly amount £2,125



# Putting it into Practice – Theo Jnr & Ingrid

## The "Financial Facts"

- Expect to stop working with the next 10 years – "but you never know"
- Recently inherited a net £350K after tax left to them by Ingrid's mother
- The IHT bill on Ingrid's mother's death brought home just how damaging to wealth that IHT can be on non exempt or fully relieved assets (like pension and the business)
- They want to make a start on "doing something about it" with the available cash after taking care of some other financial priorities… and making sure that what ever they do is tax efficient and simple to manage and in the main remains accessible.

## Those financial priorities :

- Pay off mortgage
- Holiday home purchase
- Retain access to and control over capital
- No substantial lifetime gifts....yet
- Make more definite Intergenerational plans on retirement/business sale…and possibly consider some business share transfers in enough time ahead of a sale, taking full  account of the CGT implications as well as estate planning objectives

# Putting It into Practice – Theo Jnr & Ingrid

To Consider…………….

| | |
|---|---|
| Repay mortgage | £250,000 |
| Maximum into ISAs | £40,000 |
| Business Relief Investments | £60,000 |
| Holiday Home | £350,000 |
| Collectives (low yield) and cash | £100,000 |
| TOTAL | £800,000 |

And……………………..with the remaining £700,000….

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# Putting it into Practice – Theo Jnr & Ingrid

To Consider……………

- £350,000 into an Onshore Bond (multi life)…owned jointly…to retain full access
- £350,000 into a discretionary Loan Trust – investment in an Onshore Bond

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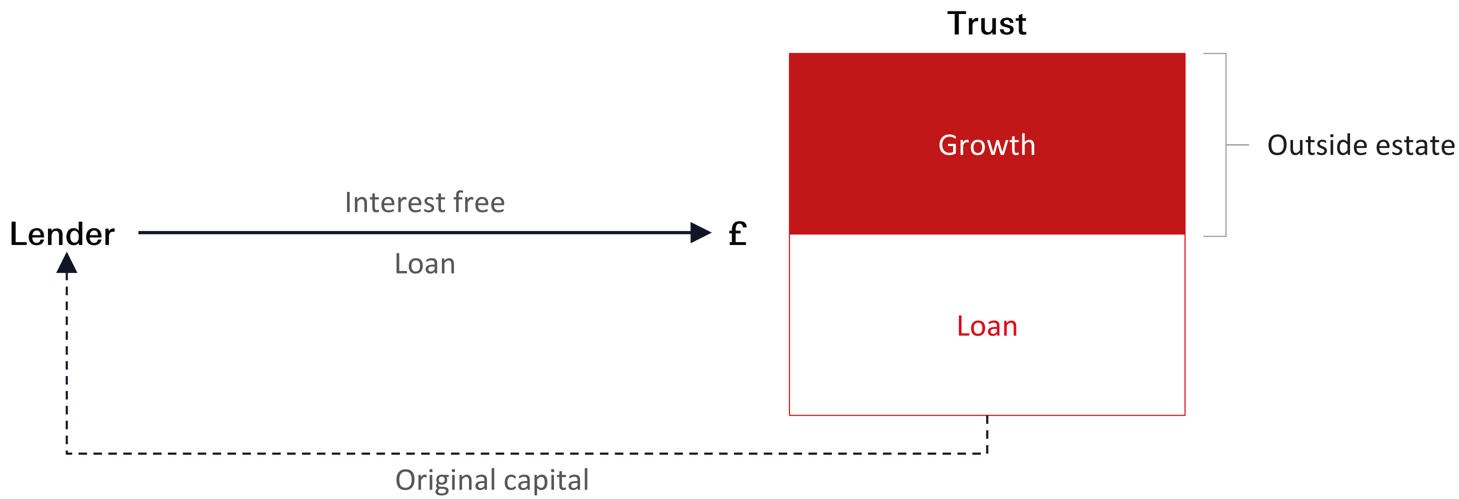
# The basics of a … Loan Trust




And DOTAS Free…

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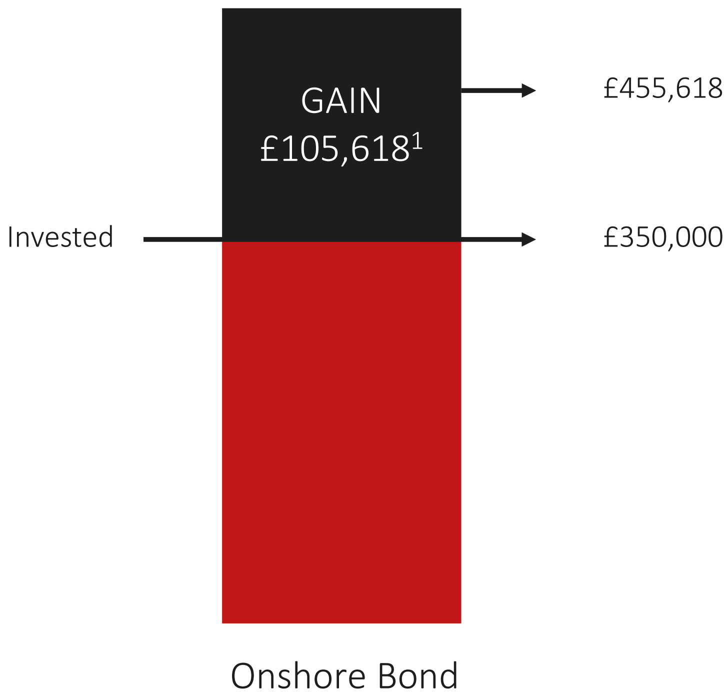
# Loan Trust

- A Loan Trust is an arrangement designed to help minimise the increase in the potential Inheritance Tax liability of the settlor – whilst at the same time providing them with access to the original funds they have invested.
- The Settlor creates the Trust and then lends money to the Trustees – who invest in an investment bond. The loan is interest free and repayable to the Settlor on demand and repayments can be taken on a regular or an ad hoc basis – but once the Settlor has received full repayment of the loan they can receive no further funds. They are excluded from benefit under the Loan Trust. Their entitlement to loan repayments is as a creditor.
- Any growth on the trust investment is outside the Settlor's estate for Inheritance Tax purposes
- Upon death, any outstanding loan remains in the Settlor's estate for Inheritance Tax purposes

# Putting it into practice Theo Jnr & Ingrid

### After 5 Years




80/20 Equity/Fixed interest

3.5% Yield on equity

2% Yield on fixed interest

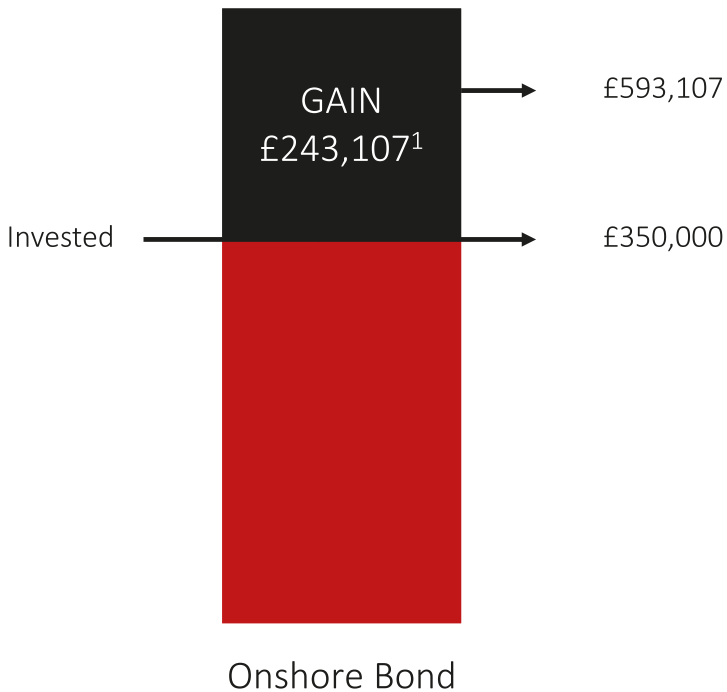
3.5% Capital growth on equity

0% Capital growth on fixed interest

[1] £105,618 / 5 = 21,123 /2 = £10,561 (jointly owned)
Source: Techlink Wrapper Selector Tool

# Putting it into practice Theo Jnr & Ingrid

## After 10 Years




80/20 Equity/Fixed interest

3.5% Yield on equity

2% Yield on fixed interest

3.5% Capital growth on equity

0% Capital growth on fixed interest

[1] £243,107 4 /10 = £24,310 / 2 = £12,155
Source: Techlink Wrapper Selector Tool

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# Putting it into Practice – Theo Jnr & Ingrid

The Loan Trust in action................

- £105,618 outside of estate at 5 years (IHT saving £42,247)
- £243,107 outside of estate at 10 years (IHT saving £97,242)
- Theo Jnr and Ingrid can decide to leave the loan trust to run
- Loan repayments could start (any time)
- 5% withdrawals “stored up” and “top-slicing” period accumulated
- The loan could be wholly or partly written off…resulting in a chargeable transfer for IHT

# Putting it into practice – Adonis

## The facts

- Received a significant (and unusually high) bonus in the last tax year and some matured share options which (after tax) will leave £350,000
- Has some ISA and pension capacity (including some unused relief)
- Generally “lives up” to income and envisages no immediate threat for additional income
- Wants to keep some liquidity but generally keen to invest for longer term growth, tax efficiently and with “minimum hassle”
- Expects to remain a higher rate tax payer ...periodically moving into the additional rate tax band
- He also expects to use his CGT exemption every year with disposals from the direct equity element of his investments

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# Putting it into practice – Adonis

## The Objectives for his savings and investments

- Check on ISA contribution strategy
- Check on pension contribution capacity
- Higher rate taxpayer: Dividends taxed at 33.75% and capital gains at 20%
- Dividend allowance (£500) by 2024/25) fully utilised
- Keep in mind the importance of tax efficiency and simplicity to Adonis in designing a solution

# Putting It into practice – Adonis

## The Objectives for his savings and investments

- Once ISA / Pension contributions checked and any capacity used…
- Up to £200,000 into an onshore bond [1]
- Keeping it simple:
- Zero tax on dividends
- Reduced tax on capital gains at fund level
- Potential to use top-slicing / 5% withdrawals on encashment to buy property in the future
- Adonis expects to be able to manage his finances and investments in the future (especially in retirement) to be a basic rate taxpayer if this will help with investment withdrawal/ encashment strategy

[1] 80/20 Equity / Fixed Interest
3.5% Yield on equity
2% Yield on Fixed Interest
3.5% Equity growth
0% growth on Fixed Interest

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# Putting it into practice - Adonis

## After 20 Years

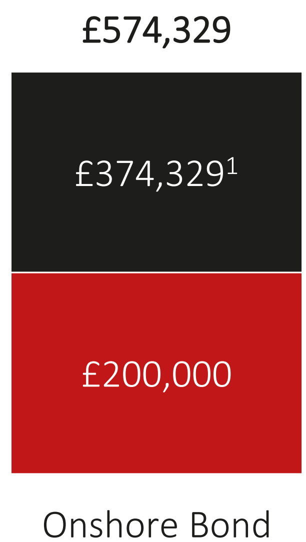
80/20 Equity/Fixed Interest

3.5% Equity Yield

3.5% Equity growth

2% Fixed Interest Yield

0% Fixed Interest growth




£374,329 / 20 = £18,716
[1] Overall return = 5.42%
Source: Techlink Wrapper Selector Tool

# Onshore & offshore bond compared

## After 20 Years

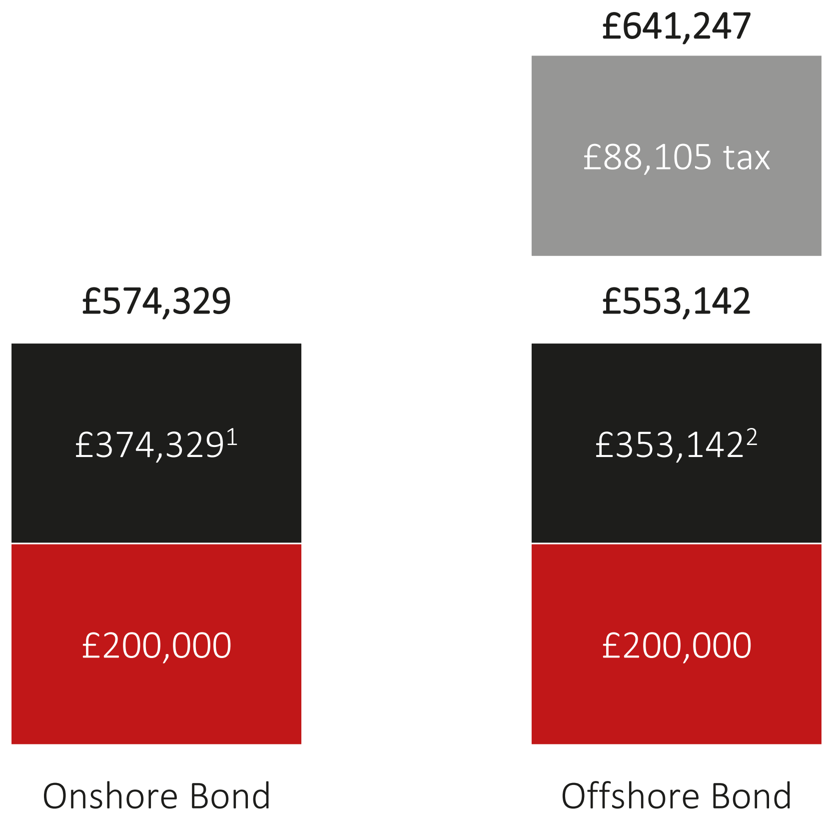
80/20 Equity/Fixed Interest

3.5% Equity Yield

3.5% Equity growth

2% Fixed Interest Yield

0% Fixed Interest growth




£374,329 / 20 = £18,716

[1] Overall return: 5.42%

[2] Overall return: 5.22%

Source: Techlink Wrapper Selector Tool

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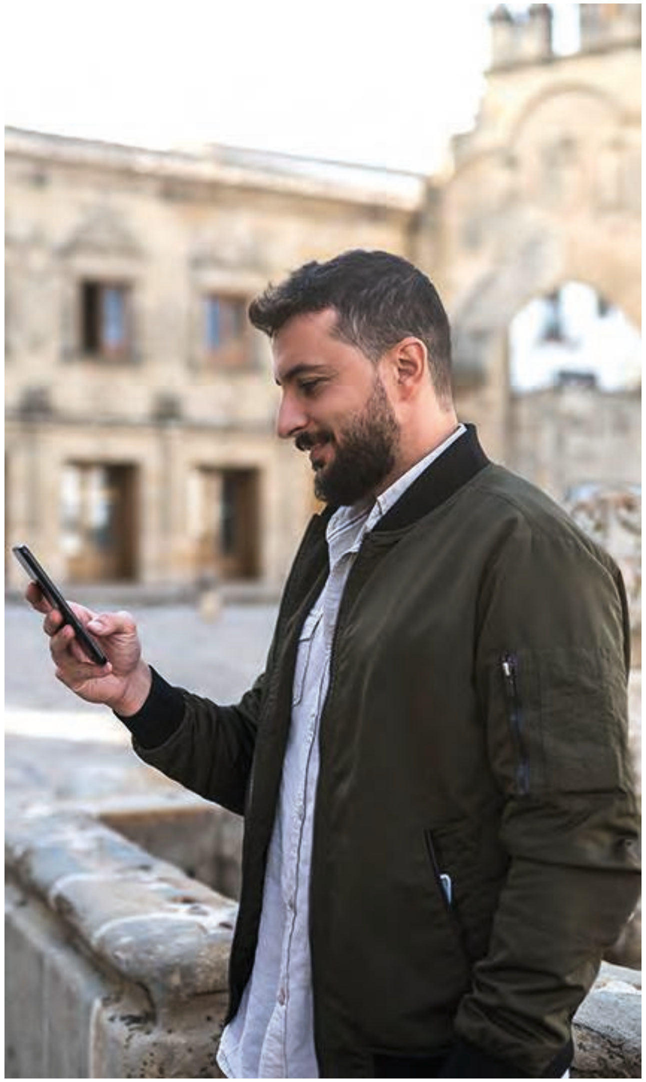

# If Adonis had invested in an "unwrapped" collective investment…

**With the same underlying returns and the same tax profile…**

- Dividends will have generated a tax liability year on year to be paid out of his income [1]
- Final capital gain will be taxed at 10% (no CGT exemption available)
- Pre tax "end of 20 years" value = £517,377 and post tax (assuming a higher rate tax payer throughout the investment term and a basic rate tax payer in the year of encashment would be £499,118 after tax [2]

The values at the end of 20 years if Adonis had been an additional rate tax payer throughout the investment term but a basic rate tax payer on encashment would be £500,407 pre tax and £482,481 after tax [2]

[1] Reinvested dividends add to the growth in value but are not charged to CGT on encashment as they add to the base value of the investment. Even if income is managed in the year of encashment to be below the higher rate threshold, as there is no "top-slicing" relief for capital gains a substantial proportion of the gain would be subject to the higher CGT rate of 20%

[2] Source: Techlink Wrapper Selector Tool

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# Taking an intergenerational approach to financial planning

- (And recognising the methods of engagement that are preferred by and most effective with different generations)

## The Importance of Recognising:

- The value to your clients and
- The value to the long-term value to your business
- of taking an intergenerational approach to financial planning strategy

Both outcomes depend on advisers having engagement with and understanding of the financial needs and aspirations of their “main client” and those near and dear to them

## Statement of the obvious:

Building, preserving and facilitating the transfer of wealth …with the knowledge of all the needs and aspirations of all “interested generations” will (rightly and deservedly) make retention of funds and continued family relationships more likely

# What Do Onshore Bond Investors Look Like?

Onshore Bond investors
come in all shapes and sizes

**and ages too!**

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## Helping to 'Future-Proof' Financial Adviser recommendations

**Clients in their 30's. Young children**

- The HSBC Life Onshore Bond is open architecture so the full range of risk profiles & investment objectives can be accommodated
- No Capital Gains Tax or tax returns to worry about
- Potential school fees planning opportunities
- Appointing children (or grandchildren) as lives assured means bonds can continue post settlor(s) death. This provides executors with flexibility to continue with the bond by appointing a new owner or distribute assets in line with the wishes of the deceased client by encashment or assignment
- Regular savings can be facilitated through bond top-ups

**Clients in their mid-50's. Retirement beckons!**

- The HSBC Life Onshore Bond is open architecture - so investment strategy can be altered to meet changing client requirements
- Bond segments can be assigned to help children meet the cost of university fees/house deposit etc
- If clients are working less hours, tax-efficient onshore bond withdrawals can be switched-on to supplement income
- Pension planning - an onshore bond can provide an accessible savings route for excess income or a different investment strategy

The HSBC Life Onshore Bond can potentially be used to meet the changing financial needs of clients as they progress through life

**Clients have passed away. What happens next?**

- If the bond has additional lives assured then it can continue after the bond owner dies. This provides executors with flexibility in distributing assets in line with the wishes of the deceased client
- If a trust(s) is in place then Inheritance Tax-free distributions (as per deceased client wishes) are possible
- Bond ownership passes to beneficiaries via trustees

**Retired clients. Looking ahead**

- 5% tax-deferred withdrawals can help clients utilise available basic rate tax band(s) and supplement pension income
- With the HSBC Life Onshore Investment Bond up to 10% regular withdrawals can be taken providing greater income flexibility for basic rate taxpayers
- Bond segment surrenders or assignments can be used to provide financial support for family members
- Onshore bonds can be placed in trust as part of an Inheritance Tax planning strategy
- No tax returns to worry about

**Important**

The value of investments can go down as well as up, meaning investors may not get back the amount of their original investment.

Most investments should be viewed as a medium to long term commitment.

All projection figures shown in this presentation are examples only and are not guaranteed they are not minimum or maximum amounts.

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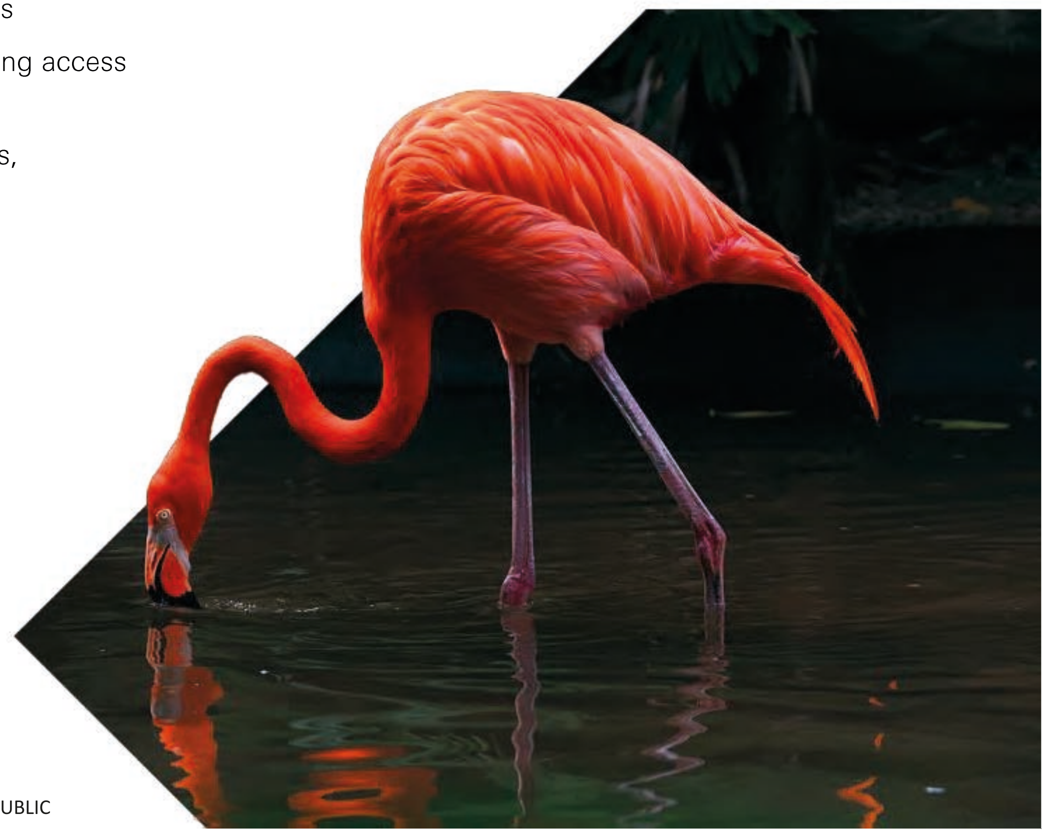

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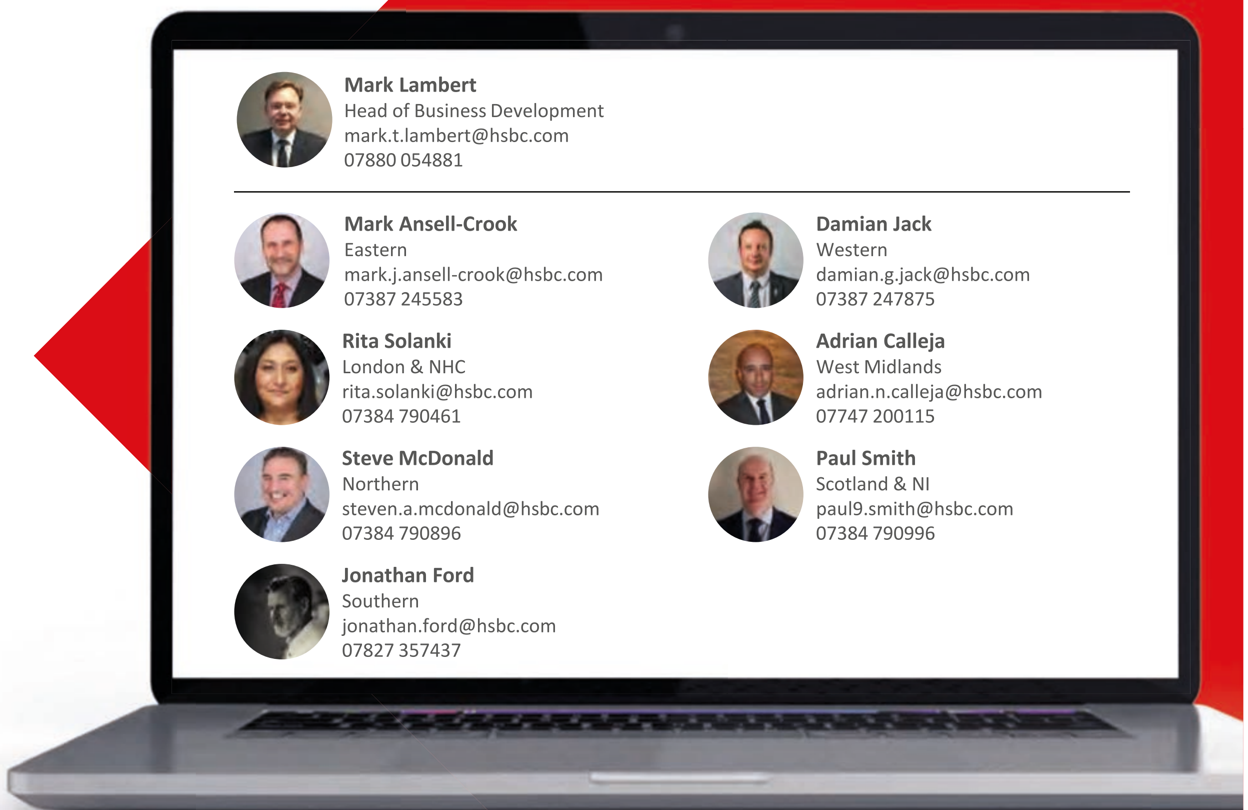

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