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A client surrendering an Offshore Bond

James is looking for advice on inheritance tax planning. His estate contains a property and an offshore bond. The value of his property is in excess of the nil rate IHT personal allowance. James has completely used his personal savings allowance for the current year. James is a higher rate tax payer.

James is a widower and in his early 70's. He has owned the offshore bond for 9 years in which he originally invested £100,000. The current value is £160,000. He has never taken any lump sums from the bond or regular withdrawals under the 5% pa deferment regime. What this means is that these funds represent an additional IHT liability of £64,000.

He has 2 children and a further 3 grandchildren but has no intention of giving them any funds during his lifetime.

Should James decide to surrender his bond then the chargeable event is going to be £60,000 at a rate of 40% which equates to a tax bill of £24,000 (a top slicing calculation was checked to ensure that no additional tax liability would occur). In other words 15% of his total funds are going to be lost to this chargeable event.

James's IFA had looked at the option for converting the bond into a Discounted Gift Trust but this is not available with his bond provider. If he surrenders and reinvests into a Discounted Gift Trust he would have the chargeable event detailed above and would also give up access to his capital, which James says he does not want to do.

An EIS investment offers an income tax rebate of up to 30% of the contribution which can go against income tax paid from all sources for a client in the current and immediately previous fiscal tax year. As income tax would be paid on any chargeable event, James could, if he invested in an EIS, make a rebate claim.

This means that, should James want to cover the tax he is due to pay on his bond then if he invests £80,000 into an EIS then he could repay his income tax bill with the rebate due (£80,000 x 30% = £24,000 rebate). In addition, once James has held this investment for a 2 year qualifying period then these funds would be considered to be IHT free. An EIS arrangement is not a liquid asset so James would need to be comfortable not accessing these funds until they became liquid.

As the EIS is not accessible during its lifetime then it may be suitable for James to consider a BPR investment for the remaining £80,000. Once it has been invested for 2 years it is completely free of IHT. This type of investment has better liquidity and under normal circumstances James should be able to access some or all of the funds at any time and so this might prove to be useful to James should he need access to his funds in the short term.

When James's EIS matures he can move the funds into a BPR arrangement which will continue to be IHT free and will give him full access to all his funds.

Kuber VENTURES
Opening the door to EIS investment

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EIS/SEIS/BPR Funds are not suitable for all investors as the underlying investments are often illiquid and therefore high risk. Investors may not recover some or all of their initial investments. Advice should always be sought from a professional adviser prior to investing.

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