

Surrendering an Investment Bond

Scenario

It's often the case that investors would like to sell an investment bond but are concerned about the tax implications. Pauline and John are a married couple in their late sixties, retired, with children. The value of their assets is well over the combined nil rate band for Inheritance Tax (IHT) of £650,000 and Residence Nil Rate Band of £350,000. This is due to an increase in the value of their property.

The couple have assets including cash, property and an investment bond. The current value of the investment bond is £250,000. Estate planning is a priority, to mitigate their IHT liability and preserve their legacy for their children. So they've decided to surrender the bond. However they'll face a significant Income Tax bill on the £30,000 gain from the bond.

Solution

Pauline and John's adviser suggests that they use an Enterprise Investment Scheme (EIS). This would be key to an investment strategy to reduce the amount of Income Tax payable on the gain made from selling the bond. EISs are tax-efficient vehicles bringing access to tax benefits including 30% Income Tax relief on the amount invested.

Pauline and John also plan to invest some of the proceeds from the sale of the bond in an IHT solution, and protect more of their estate from IHT.

Steps

- **Sell bond:** Pauline and John sell the bond, making a gain which immediately gives rise to an Income Tax liability.
- **Invest part of gain in an EIS:** They invest some of the gain in an EIS they have selected with their adviser's help, which is offered by an established provider.
- **Receive 30% Income Tax relief:** Pauline and John receive 30% Income Tax relief on their EIS investment. This can be used to offset the tax liability on the bond.
- **Use other sale proceeds for IHT mitigation:** Pauline and John invest another part of the sale proceeds from the bond in an IHT solution, maintaining their focus on estate planning.

Blackfinch is a tax-efficient investment specialist working in partnership with advisers

To find out more please speak to one of our team on **01452 717070** or email **enquiries@blackfinch.com**.

IMPORTANT INFORMATION

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