Don't invest unless you're prepared to lose all your money invested. This is a high risk investment. You could lose all the money you invest and are unlikely to be protected if something goes wrong. Take 2 minutes to learn more on page 3

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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Risks

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the FCA key risks?

1 - You could lose all the money you invest
If the business you invest in fails, you are likely to lose 100% of the money you invested. Most start-up businesses fail.

2 - You are unlikely to be protected if something goes wrong
Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker (https://www.fscs.org.uk/check/investment-protection-checker).

Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated firm, FOS may be able to consider it. Learn more about FOS protection (https://www.financial-ombudsman.org.uk/consumers).

3 - You won't get your money back quickly
Even if the business you invest in is successful, it may take several years to get your money back. You are unlikely to be able to sell your investment early.

The most likely way to get your money back is if the business is bought by another business or lists its shares on an exchange such as the London Stock Exchange. These events are not common.

If you are investing in a start-up business, you should not expect to get your money back through dividends. Start-up businesses rarely pay these (https://www.financial-ombudsman.org.uk/consumers).

4 - Don't put all your eggs in one basket
Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

A good rule of thumb is not to invest more than 10% of your money in high-risk investments (https://www.fca.org.uk/investsmart/5-questions-ask-you-invest).

5 - The value of your investment can be reduced
The percentage of the business that you own will decrease if the business issues more shares. This could mean that the value of your investment reduces, depending on how much the business grows. Most start-up businesses issue multiple rounds of shares.

These new shares could have additional rights that your shares don't have, such as the right to receive a fixed dividend, which could further reduce your chances of getting a return on your investment.

If you are interested in learning more about how to protect yourself, visit the FCA's website (https://www.fca.org.uk/investsmart).