For financial advisers only

Quilter

Lump Sum Product 'Wrapper' Allocation

Case studies

*These case studies have been created using Quilter's Lump Sum Product 'Wrapper' Allocation Tool which can be found **here**. The tool looks to model how a lump sum might be allocated across Quilter Investment Platform's investment products only (including the Collective Investment Bond offered by Quilter Life & Pensions) to maximise personal tax allowances available to an individual or couple.*

The examples have been based on a mid-investment return of 5.5%, achieved through 2% yield (each on interest and dividend) and 1.5% capital growth.

Anthony

Anthony is 58, he is a higher rate taxpayer and has a large pension fund mainly due to contributing early in his career and achieving good investment returns compounded over the years. Due to the recent pension changes in the budget, he will not be able to access anymore TFC cash then he is entitled to today i.e. 25% of £1,073,100. He is concerned that the rules may change if there is a change of government which could limit this further. He has been advised to take his TFC (£268,275) but as he is still planning to work for some time yet, needs to keep this money invested. He needs further advice on which product wrappers he can utilise to achieve the best investment returns in a tax efficient way.

Existing investments:

Cash ISA £45,000 – current year subscription £5,000

Shares acquired through work which pay dividend income of **£250**

Lump sum amount	£268,275.00
Individual or couple (spouse/civil partner)	Individual
ISA allowance used client 1	£5,000.00
Other income (client 1)	
Other savings income (interest)	0
Other dividend income	250
Gains realised during the year	0
Type of taxpayer	Higher rate tax-payer
Returns expected	
Capital	1.50%
Interest	2.00%
Dividend	2.00%
Allocation across Quilter wrappers individual:	
Individual Savings Account (ISA)	£15,000.00
Collective Investment Account (CIA)	£25,000.00
Collective Investment Bond (CIB)	£228,275.00

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Proposed solution:

You recommend the following after considering the output from the tool:

- **£15,000** into a Stocks and Shares ISA to maximise this year's ISA allowance
- **£25,000** into a Collective Investment Account (CIA) ensuring income and gains do not exceed the remaining Personal Savings Allowance (PSA), Dividend Allowance and Capital Gains Tax (CGT) Annual Exempt Amount (£500 yield limits the investment to ensure PSA is not exceeded)
- **£228,275** into a Collective Investment Bond (CIB) shielding further income and gains from higher rates of tax

Anthony case study continued

When Anthony does retire, he has plenty of decumulation options to supplement his pension income, which above his personal allowance will be taxable at 20%, 40% or 45% depending on level of income taken.

- **ISA –** unlimited income – not taxable
- **CIA –** PSA, Dividend Allowance and Capital withdrawals within CGT Annual Exempt Amount
- **CIB –** 5% withdrawals (£11,413 per annum) tax deferred for 20 years as return of capital

This can provide a tax efficient income stream for him.

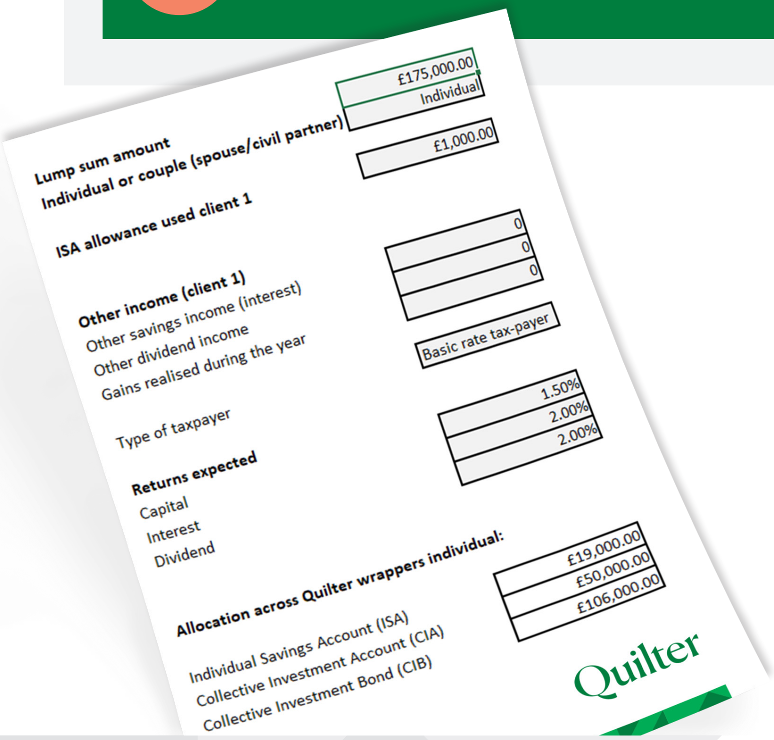
Abigail

Abigail is 45 has just inherited a lump sum (£175,000) from her grandfather who recently passed away. She is divorced and has a daughter who is 11. Abigail has a well-paid job (is a basic rate tax-payer - £45,000 salary) and a small mortgage which is on a 5-year fixed term. She is able to pay up to 10% per year off her mortgage in addition to her monthly payments. She is a member of a defined benefit pension scheme. Abigail would like to invest her money for the future but wants a 'low maintenance' investment where she does minimal tax reporting. She is happy to use the investment to pay off some of her mortgage at the end of the fixed term (£220,000)

Abigail has contacted you to ask how best this can be achieved. She also wants the flexibility to help her daughter in the future if she goes to university.

Existing investments:

Numerous ISAs £24,000 – current year subscriptions £1,000



Proposed solution:

You recommend the following after considering the output from the tool:

- **£19,000** in a Stocks and Shares ISA to maximise this year's ISA allowance
- **£50,000** into a CIA ensuring income and gains do not exceed the remaining PSA, Dividend Allowance and CGT Annual Exempt Amount (£1,000 yield limits the investment to ensure PSA and dividend allowance is not exceeded this year)
- **£106,000** in a CIB shielding further income and gains from self-assessment reporting

As the Dividend Allowance is due to fall to £500 from 2024/25 you agree to move £20,000 from the CIA into the ISA at the start of the 2024/25 tax year. In addition, you discuss funding a JISA for Abigail's daughter in this tax year and next with a view of reducing the investment value in her CIA to avoid exceeding the dividend allowance in 2024/25.

The CIB, whilst simplifying tax reporting for Abigail, can also help her to save longer term for the potential mortgage payment and in conjunction with a JISA could help with university fees. As her daughter will be an adult by this point, she can consider assigning parts of the bond to her to avoid pushing herself into a higher tax band with any gains made at that time whilst also considering increases in her own earnings.

Adam

Adam is 68 and retired. His wife, Ava (67) and Adam have paid off their mortgage and having recently downsized their property have £300,000 to invest. They both have good income streams from their pensions savings (both basic rate taxpayers) and are keen to invest the lumpsum as a legacy for their two children (Aaron and Alice) – who are both 32. Aaron and Alice both have partners. Adam is keen to ensure that if required they can access some of the money – but is happy to 'ringfence' for the children. Alice wants to ensure that any money which is given to their children is not wasted.

Adam and Ava have asked you to help them.

Existing investments:

ISAs – **Adam has an ISA worth £82,000** and has contributed £20,000 this tax year. Ava has an ISA worth £40,000 again with a current year contribution of £20,000.

Proposed solution:

Although Adam and Ava could invest £100,000 into a joint CIA whilst remaining within their tax-free allowances, their main goal is to start considering how they might structure some legacy planning for children and (hopefully) future grandchildren. With this in mind, the recommendation is to place £40,000 into a joint CIA with a view of moving to their ISAs at the start of 2024/25 tax year.

With the rest of the money, you recommend a discretionary loan trust utilising a CIB for £260,000. This will allow continued access to the full amount, but growth will be held for the benefit of children and future grandchildren. In the future, the loan can be given up in part or full (a gift for Inheritance Tax purposes at the time) should Adam and Ava become confident that they do not require access to the entire sum.

This solution helps to start them on their legacy planning journey and the discretionary nature of the trust suggested allows it to evolve as their family does. All of this without feeling like they are giving up access to their money so early into their retirement.

Please note these case studies are fictional and only considers products and trust solutions offered by Quilter.

There are many different options available taking into account individuals' circumstances and these case studies are purely illustrative.

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