MY BEST CASE

THE NAME'S BOND, **OFFSHORE BOND**

In a new series celebrating the value of the advice process, **Alan Solomons** outlines why an offshore bond was the right tax shelter for a compensation payout

A husband and wife in their early 60s first came to me at the end of 2013 after their previous adviser retired. They have three grown-up children – two sons and a daughter who was born with cerebral palsy, whom they both look after.

They had two onshore bonds in which £500,000 had been invested just after the 2008/9 stock market crash – perfect timing to invest at the bottom of the market.

If ever a family deserved some luck this one did. The money had come from a settlement with the NHS, which had been negligent at the birth of their daughter. It had taken years to get this settlement.

The NHS had also paid out a larger sum, in the millions, for the daughter from which a house was bought for the daughter and her parents.

They receive certain benefits for caring for her, but the onshore bonds were their main source of income.

The first thing that struck me was these bonds were a very simplistic way of dealing with the funds. The chartered accountant in me could not help but notice the tax inefficiencies:

- The clients had little taxable income, so why have onshore bonds where gains and income are internally taxed at 20%?
- They had no personal pensions and were each missing out on a £720 annual boost from the government
- Neither had ISAs, nor were they funding ISAs

They agreed to my plan to use an offshore bond on the basis their investment would benefit from gross roll-up, largely free of tax.

They took out an offshore bond with relatively low fees and access to a wide range of investments, including the TIME Freehold Income Authorised fund. It invests in 64,000 freehold ground rents in the UK and is probably the lowest volatility fund on the market, having proved to be totally uncorrelated with the stock market.

It targets an annual total return of at least 5% per annum and has achieved an average of more than 7% per annum over the past 23 years.

We also opened two ISAs, one each, putting in the maximum for that tax year and two pensions, one each, putting in £2,880 with HMRC adding £720 each in the form of tax relief.

Each year we sell complete segments from the offshore bond to maximise what can be put into pensions and ISAs, thus reducing the gain in the offshore bond each tax year (with the chargeable event gain being covered by their personal allowances).

These clients have enjoyed £2,000 income per month tax free and in the last 11 months their investments have grown by 21%. ■

Alan Solomons is a director of Alpha Investments and Financial Planning Ltd in London and is one of around 300 practising chartered accountants who is also a practising independent financial adviser