Essential Suffolk Magazine
September 2014

INVESTING AFTER DOWNSIZING

James Wright
scruttonbland
accountants tax advisers insurance brokers financial advisers

Scrutton Bland Ipswich has moved just up the road due to growth; however an important time at or during retirement can be moving for the opposite reason of downsizing. Downsizing can free up capital which can then be used for various different options.

One reason for downsizing is so income can be supplemented from the available capital. Often capital is left on a deposit or savings account to be depleted to supplement income over a number of years. However, by using this method, it is extremely likely there will be no capital growth in real terms as inflation will outstrip any interest income. Therefore capital may run out earlier than expected.

An alternative could be to invest the excess proceeds from downsizing in line with your attitude to risk across the Fixed Interest, UK Equity, Overseas Equity and Commercial Property sectors: this approach will produce an income whilst maintaining the capital value (or reducing it at a lesser rate). A good rule of thumb is that 3% income can be withdrawn whilst potentially maintaining capital values. If for example £100,000 was available by downsizing, an income of £250 per month could be taken using this rule of thumb. Above this some capital erosion is likely to occur.

With property prices at their current relatively high levels downsizing may also provide an opportunity to mitigate an Inheritance Tax liability on death. For example were you aware that the available capital could be gifted to a trust with ongoing income available and an immediate inheritance tax saving?

This type of arrangement is known as a Discounted Gift Trust (DGT). A DGT allows a set level of income to be taken by the settlor for the rest of his or her life but, depending on the level of income, age and individual's health, the level of discount provided at commencement will differ. The discount is immediately exempt from IHT. As an example an individual in good health, aged 70, investing £250,000 and taking an income of £1,000 per month will have discounted that gift for tax purposes by £136,340. An immediate IHT saving of £54,536 is achieved. The remaining value of the gift into the trust of £113,660 would take 7 years before being IHT free.

Before arranging an investment especially a trust investment it is recommended you seek independent financial advice. If you would like to discuss your financial advice needs please contact me at **james.wright@scruttonbland.co.uk** or alternatively contact me at our new office on 01473 267000. Scrutton Bland Ltd is authorised and regulated by the Financial Conduct Authority