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PRESS ARTICLE

UNIVERSITY COSTS AT YOUR DISCRETION! | JULY 2011

With the cost of funding further education for your children or grandchildren rising year on year, how do you make provision for these costs in the future?

It is vitally important that you invest your assets in the most appropriate and tax efficient way.

The careful choice of investment vehicle can result in increased net returns without necessarily increasing the investment risk.

If you are looking to fund university costs for your children or grandchildren, an offshore investment bond taken out in conjunction with a trust could be an attractive proposition.

The trust gives trustees total control over when and how the student receives financial assistance to help with the payment of fees and on-going living expenses. In addition, it protects the funds from any possible future creditors and also affords the person(s) who created the trust with potential inheritance tax savings.

Funding university costs by combining the income tax efficiency of an offshore investment bond with the protection and IHT savings opportunities of the trust, could therefore be a very tax efficient strategy.

The parents and/or grandparents create a Trust in which the student is included as a potential beneficiary. The trust allows the trustees to use the trust funds for the maintenance, education, or benefit of the beneficiaries.

The parents and/or grandparents make a gift of capital to the trustees for the purpose of meeting the future cost of fees and on-going living expenses. This gift will constitute a chargeable lifetime transfer for inheritance tax purposes, however, it will usually be covered by any available nil rate band (£325,000 for 2011/12). Consequently, the gift will be free from any possible inheritance tax after seven years.

The trustees then choose to invest the capital into an Offshore Bond that is divided into a number of individual policies for greater tax efficiency. All growth within each policy is generally tax free until, for example, a policy is cashed in.

When there is a requirement for financial assistance, the trustees assign individual policies to the student, which does not trigger an income tax charge. When the policies are subsequently cashed in, tax on any gain is assessed on the student, at a rate that will typically be lower than if it had been assessed on the parent or grandparent.

For 2011/2012, the student’s personal allowance of £7,475 can be used to offset any gain. Assuming the student has no other income, the gain each year will be covered by the student’s index linked personal allowance, resulting in a zero tax liability on the payments.

Any policies not assigned when the child’s education is finished can be used to buy a car or help the child with a deposit for their first property. It is always advisable to seek legal advice when creating a trust to ensure that the trust does what it was intended to do and the trustees are aware of their duties.