

Focusing on:

Inheritance Tax Portfolio Service

Tax efficient investing for inheritance

We understand the worry Inheritance Tax (IHT) can cause if you have significant wealth.

Without appropriate arrangements in place, you risk not passing on a large portion of your assets to your loved ones. The Charles Stanley Inheritance Tax Portfolio service is specifically designed to help address this.

There are many ways of reducing your taxable estate but some of these can be expensive, complicated and result in you losing control of the assets. Our IHT Portfolio service offers a discretionary managed portfolio that is cost-effective, relatively simple and allows you to have the control you need. You will also retain full ownership of the investments and the income derived from them, without having to gift assets or deal with complicated trust structures.

Investing for the future

According to the current rules, 40% Inheritance Tax is liable on your assets above the £325,000 nil rate band (the latter is fixed until 2021).

New rules, however, introduce an additional nil rate threshold, raising the IHT threshold to £1 million for married couples and civil partnerships (£500,000 for singles) who pass their main residence on to direct descendants (children and grandchildren).

This new arrangement will be phased in between 2017 and 2021. In effect, the £325,000 nil-rate threshold will rise by £100,000 in April 2017 and continue rising by £25,000 each year until it reaches £500,000 for singles and £1 million for couples.

For estates with a net value of more than £2 million, the new rules mean a corresponding phased withdrawal of the main residence allowance, at a rate of £1 for every £2 over this threshold.

Taking advantage of Business Relief

Business Relief (formerly known as Business Property Relief) is a statutory tax relief introduced by the UK Government in 1976. It is an incentive to invest in specific types of trading companies including companies quoted on the Alternative Investment Market (AIM).

Once Business Relief qualifying assets are held for a minimum of two years, they are exempt from Inheritance Tax providing they are still held at the time of death. If the two-year holding period is not met, a surviving spouse or civil partner can inherit the portfolio without restarting the required holding period.

Whilst we select companies based on our understanding of the tax legislation, it is not possible for us to guarantee that investments will qualify for Business Relief.

The Alternative Investment Market (AIM) – risk and rewards

AIM was established in 1995 and is the London Stock Exchange's market for smaller, growing companies. AIM's regulatory structure is based around balancing the flexibility a growing company needs while offering appropriate investor protection. AIM has become attractive to a wide range of companies at different stages of development and covers a broad range of sectors, including a number of long-established companies. Many AIM businesses have emerged to become leading companies in their field and recognised household names.

This service should be regarded as high risk, as it is exclusively focused on smaller company equities. Share prices in this market may be more volatile than those of shares on the Official List of the London Stock Exchange and investments may be subject to limited liquidity.

Our approach to AIM

Conscious that investing in AIM companies involves a high degree of risk, we adopt a conservative approach focusing on established, profitable and cash generative companies. In order to diversify the risk, we seek to hold a minimum of 15 different companies from a variety of sectors, chosen for their long-term potential.

A portfolio of this type will not be suitable for all investors and you can find out more about the risks involved in the 'Important information' section of this insert. We only provide this service on a discretionary basis and, in order to gain the Inheritance Tax relief, portfolios are likely to be fully invested in AIM companies at all times.

An example of possible savings

If an individual has an equity portfolio worth £400,000, from which £100,000 is invested in the Charles Stanley Inheritance Tax Portfolio service — and assuming the nil rate Inheritance Tax bands are utilised against other assets, such as the family home — the estate will benefit after two years as follows, even if there is no growth in the value of the portfolio:

	Estate without an IHT Portfolio	Estate with an IHT Portfolio
Total value of equity portfolio	£400,000	£300,000
Amount of portfolio invested in AIM	Nil	£100,000
Value of portfolio taxable for IHT	£400,000	£300,000
IHT payable on portfolio	£160,000	£120,000
Residual estate	£240,000	£280,000
IHT saving	Nil	£40,000

This example assumes the Charles Stanley Inheritance Tax service would have increased the amount that can be passed to the beneficiaries by £40,000, as the AIM shares valued at £100,000 are excluded from the Inheritance Tax calculation once held for two years.

(These calculations are for illustration purposes only and exclude income and management fees. Tax Portfolio benefits depend upon the investor's individual circumstances and levels and bases of taxation may change in the future.)

Getting started

To establish if this service is right for you, we will ask you some questions about your financial circumstances, your objectives, and your attitude and capacity for risk. If we are in agreement, we will ask you to complete our application form and, as soon as we receive your form, we will send you a welcome letter confirming the details of the service, your unique account number and information on how you can transfer-in the money to be invested.

The benefits of investing via your Individual Savings Account (ISA)

You can now buy AIM shares to be held in your ISA, which will be free from Capital Gains Tax, Income Tax and, if held for at least two years, Inheritance Tax, making AIM one of the most tax-advantageous markets for investors.

The benefits can be transferred to surviving spouses and civil partners too. If a person holding an ISA dies, their surviving spouse or civil partner is entitled to an extra ISA allowance equal to the value of any ISAs held, even if they are not inheriting the ISA itself.

Designed for your peace of mind

We will send you contract notes following each trade and keep you up to date with quarterly valuations and six-monthly reviews. These will explain how your investments have performed relative to the FTSE AIM and FTSE 100 indices and give you a more specific commentary on individual stocks. In addition, you will receive an annual Securities Report summarising the income generated, with details of any gains or losses. You can also access your portfolio information easily and securely online via our client portal 'My Charles Stanley'.

Frequently Asked Questions

What is the minimum amount I can invest?

The minimum initial investment is £100,000. This can include a combination of a taxable account and an ISA.

Is this service right for me?

We have designed this service for UK-based individuals with taxable estates significantly in excess of the nil-rate and additional rate Inheritance Tax bands, who are willing to accept the higher risks associated with investing in AIM companies and, ideally, already hold a wide range of investments. We expect investors to have additional savings and/or investments outside of this service.

How much will this service cost?

You can find detailed information about our competitive fee structure on our rate card.

Can I invest under a Power of Attorney or Court Order?

Yes — as the investments would still show you as the beneficial owner, we are able to invest under a Power of Attorney or Court Order.

When does the two-year holding period start?

The required two-year holding period starts from the date each underlying investment is made. Unless you ask us to do otherwise, we typically invest the initial monies over a three to six-week period, in order to reduce your exposure to market volatility.

Does the two-year window re-start upon sale of a Business Relief qualifying investment?

No. As long as the proceeds of a sale are reinvested into another investment that qualifies for Business Relief, the holding period for the initial investment does not restart. If a capital gain arises, you may need to pay Capital Gains Tax at the appropriate rate.

Can any income be distributed?

We aim to manage portfolios so that the dividend income will at least cover the annual management fee for the service. Excess income can either be distributed on a regular basis or reinvested. Please note that any dividend income that is reinvested will have its own unique two-year holding period in order to qualify for Business Relief and gain exemption from Inheritance Tax.

What if my circumstances change and I need to get access to the capital?

Charles Stanley imposes no penalty for realising your portfolio other than the normal transaction charges and, subject to liquidity, part or all of the portfolio can be realised at any stage. However, the capital value may have fallen and assets that are withdrawn may form part of your estate for Inheritance Tax purposes.

What if I die within the initial two-year period?

After Probate, the portfolio can be transferred to your surviving spouse or civil partner without re-starting the requisite two-year holding period. Otherwise, the portfolio will be considered part of your estate in the IHT calculation.

What happens upon death?

At this point we will change the level of service from Discretionary to Execution-only (for an explanation of both service levels, please refer to Our Services and Business Terms, which can be found on our website at www.charles-stanley.co.uk/about-us/our-services-and-business-terms). If requested, we can provide a probate valuation and confirm which holdings qualify for Business Relief. Once we receive a copy of the death certificate and a letter of indemnity from the executors, we can liquidate part or all of the portfolio and make a payment direct to HMRC. Alternatively, once Grant of Probate is received we can take instructions from the executors.

If a person holding an ISA dies, their surviving spouse or civil partner is entitled to an extra ISA allowance equal to the value of any ISAs held, even if they are not inheriting the ISA itself.

Are my assets protected?

The money and investments that we look after for clients are held in trust on your behalf. We keep your assets ring-fenced from those of Charles Stanley and held instead in the name of our nominee, Rock (Nominees) Limited – they remain your property at all times. We are authorised and regulated by the Financial Conduct Authority, we hold substantial insurance cover at Lloyd's of London and we participate in the Financial Services Compensation Scheme (FSCS). In relation to investment business, the maximum amount payable by the FSCS in the event of our default is the first £50,000 claimed. More information on the latter can be found at fscs.org.uk.

What if I have a Financial Adviser or another intermediary?

We can set up your account on an 'agent as client' basis, which means that we deal directly with your Financial Adviser and they are responsible for the suitability of the service you receive. We retain responsibility for the investments within the service.

Important information

Investments in certain securities, including shares in smaller companies, companies in specialist sectors, and/or in unquoted companies, will normally involve greater risk or above average price movements (volatility) than investments in larger, more established companies. The markets in such companies, as mentioned above, can suffer from partial or total illiquidity, which can make it difficult, or impossible, to dispose of an investment.

For quoted investments the difference between the Bid and the Offer price will often be greater, so that if an investor has to sell a holding immediately after purchase the proceeds may be less than the initial amount invested. AIM quoted shares tend to have market quotes in relatively small lots of shares, so selling large quantities in the market may achieve a lower price than the market quote.

Many smaller companies have a small management team and as such the loss of any one individual may have a significant effect on their performance. In a similar vein these companies are likely to have a limited product range and tight cash constraints and tend to be vulnerable to sudden changes in market conditions

The rules for issuers whose shares are quoted on AIM are less demanding than those for the Official List of the London Stock Exchange; as such the investment risks are higher. For unquoted companies the risks are much higher than for quoted companies; it may be difficult or impossible to sell such shares, or to assess their value or the level of risk involved.

For information on these services, please speak to your Charles Stanley contact directly.

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Important information

It should be noted that the benefits of the Inheritance Tax Portfolio service are premised on current tax rules continuing for the duration of an investor's portfolio. The rules on tax or their interpretation, as with the rates of tax applicable, may alter and the benefits will depend on the investor's individual circumstances. The details and examples in this document are a simplified summary of the relevant tax rules. Potential investors are recommended to consult a professional tax adviser on all tax matters.

Past performance is not indicative of future performance. The value of investments may fall as well as rise and the income from them may fluctuate and is not guaranteed. Investors may not recover the amount invested.

Nothing in this material constitutes investment advice, nor is it a substitute for investment advice, which should be obtained from an authorised investment professional, and any investment decision the recipient makes should be based on an evaluation of that recipient's financial circumstances, investment objectives, risk tolerance, and liquidity and other needs.

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