

FOCUSING ON

# Inheritance Tax Portfolio service

# The Alternative Investment Market – risk and rewards

AIM was established in 1995 and is the London Stock Exchange’s market for smaller, growing companies. AIM’s unique regulatory structure is based on balancing the flexibility that 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.

While the tax relief benefits of investing in AIM are clear, this service should be regarded as high risk as it is exclusively focused on smaller company stocks. In order to gain the Inheritance Tax relief, your client’s portfolio will seek to be fully invested at all times. Share prices in this market may be more volatile than the main market and investments may be subject to limited liquidity.

## Focusing on effective Inheritance Tax planning – an example of possible savings

A client has an equity portfolio worth £400,000, from which £100,000 is invested in the Charles Stanley Inheritance Tax Portfolio service. No growth occurs and dividend income covers the management fee exactly. Assuming the nil rate and the main residence nil rate Inheritance Tax band are utilised against other assets, such as the family home, the estate will benefit after two years as follows:

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

In this example 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.

Please note that tax benefits depend upon the client’s individual circumstances and levels and bases of taxation may change in the future. A portfolio of this type will not be suitable for all investors and further notes on the risks involved are detailed in the ‘Important Information’ section of this brochure.

# Why choose Charles Stanley?

As a financial adviser, you will be aware of the importance of tax and estate planning. With the sustained increase in property prices over recent years, more and more of your clients' will have found that the value of their estate is higher than the Inheritance Tax (IHT) exempt threshold.

There are many ways of reducing the taxable estate, for example, gifting money or putting it into a trust, however, these can be expensive, complicated and may result in your client losing the benefits of their assets. We believe that using Business Relief is a more flexible solution for mitigating IHT while also maintaining access to capital. In addition, investments held in Business Relief qualifying companies are exempt from Inheritance Tax in just two years compared with a trust or gift which will take seven years.

## Who might benefit?

This service may help UK-based clients' whose taxable estates are expected to be valued significantly in excess of the IHT nil rate band. The minimum investment is £100,000 and this can consist of a combination of a taxable account and an ISA.

It should be noted that investments in AIM listed companies involve a higher degree of risk. We seek to reduce the risk by focusing on established companies that are profitable and cash generative. Ideally, in order to reduce the risk, we will hold a minimum of 20 different companies from a variety of sectors selected for their long-term potential. While we select companies based on our understanding of the tax legislation, it's not possible for us to guarantee that investments will qualify for Business Relief.



## Our solution

Charles Stanley's Inheritance Tax Portfolio service seeks to help your clients' pass on more of their wealth to their loved ones by investing in portfolios of qualifying companies quoted on the Alternative Investment Market (AIM).

With this service your client can benefit from a cost effective and relatively simple solution. They will also retain full ownership of the investments and the income derived from them while providing equity related returns.

- ▶ **Experience** - Your clients' portfolios will be managed by one of the largest and most experienced dedicated AIM IHT teams in the country.
- ▶ **Performance** - Our service has a proven performance track record and the lead portfolio manager has the experience of managing an AIM IHT service throughout the global financial crisis.
- ▶ **Proven Tax Relief** - Hundreds of clients have used the service to successfully claim Business Relief and there have been no known refusals from HMRC.
- ▶ **Security** - Charles Stanley is one of the UK's leading wealth management firms with a history dating back to 1792. As at 31st March 2020, we manage funds in excess of £20 billion and are independently owned.

# Is IHT Portfolio Service?

## OVERVIEW – 6 KEY POINTS

- ▶ **Maintain Control** – A client maintains access to their capital and the income derived from it, unlike many other Inheritance Tax solutions
- ▶ **Tax Relief** – Clients can pass more of their wealth on to their families investing in stocks listed on the AIM market
- ▶ **Speed** – An AIM portfolio can become exempt from Inheritance Tax after only two years; much faster than many other forms of estate planning
- ▶ **Simplicity** – AIM portfolios are straightforward and do not involve some of the legal complexities of other Inheritance Tax solutions
- ▶ **Growth Potential** – AIM is home to many innovative, growth companies that have become leaders within their field
- ▶ **ISA Eligible** – AIM shares can be held in an ISA. An AIM ISA is free from Capital Gains Tax, Income Tax on your dividends and has the potential to be free from Inheritance Tax

## Our portfolio construction process

1

### Idea generation

Our IHT team use quantitative screens to pick out stocks with high levels of cash generation, strong balance sheets and a history of paying dividends. We will then establish if the companies have strong and scalable business models and experienced and committed management. In addition, our strong broker relationships will often bring us stock ideas.

2

### Stock research

After confirming our belief that a stock will qualify for Business Relief we conduct fundamental analysis to create a bottom up valuation and initial investment thesis. During this process we will also examine the prospects of the industry sector as a whole. We always meet company management before investing and often conduct site visits in order to fully understand the opportunities and risks in a business.

# How it works



## What is 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 for investing in specific types of trading companies including companies quoted on the Alternative Investment Market (AIM).



## When does the two-year holding period start?

The requisite two-year holding period starts from the date each underlying investment is made and unless instructed otherwise we typically seek to invest the proceeds over a 2-3 month period in order to reduce market volatility.



## When are your assets exempt?

Business Relief qualifying assets that are held for a minimum of two years 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 can inherit the portfolio without restarting the required holding period.



## What happens if the assets are sold?

There are circumstances when a sale may be necessary: for example, if a company were to move from AIM to the Official List or were subject to a takeover. Similarly, if we believe that the investment case for a company has changed then we may look to sell the holding. If a company is sold from the portfolio and another Business Relief qualifying asset is purchased, for the purposes of IHT the qualifying period for the second company is taken as the purchase date of the first. The 'time benefit' of the original holding is therefore retained.



## Tax advantages for ISAs

Your client can also purchase AIM shares to be held in their ISA, which will be free from Capital Gains Tax, Income Tax and Inheritance Tax (if held for at least two years) – this makes an AIM ISA one of the most tax-advantageous portfolios a client can hold.

3

### Portfolio construction

After considering a client's objectives and preferences we construct a portfolio of between 20 and 25 stocks. These stocks will be diversified across a range of industry sectors to spread risk. We use an internal risk modelling system to estimate a portfolio's overall level of risk so that we can review a portfolio's potential volatility before investing.

4

### Implementation

Charles Stanley has one of the largest private client dealing teams in the UK. Their expertise helps our Inheritance Tax team obtain the best price when executing trades on the stock market. We will typically look to invest a client's proceeds over a 2-3 month period.

5

### Portfolio management

We continuously review our stock selection by regularly meeting with company management teams and reviewing company updates to constantly test our original investment thesis. In addition, we look to regularly review portfolios to confirm that a client's holdings are diversified and suit their investment objectives. Our risk modelling tools constantly monitor portfolios to alert us to deviations in the risk profile of a client's portfolio.

## How you can find out more

For more information about the Charles Stanley Inheritance Tax Portfolio service, please contact James Rae or a member of our Intermediaries Sales team.

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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.

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.