



Inheritance Tax Planning and the use of AIM shares for Business Relief

FINANCIAL ADVISER GUIDE

Thorntons Investments has been managing AIM portfolios since 2006 for investors seeking Business Relief

Our **AIM Inheritance Tax Portfolio Service** is only available to investors through qualified financial advisers as we know it is crucial that clients fully understand the benefits and risks when considering our service as part of their estate planning.

We manage a portfolio of AIM listed company stocks which are expected to qualify for Business Relief (BR) if held for two years and at death.

The service is available as a model portfolio on third-party platforms, offering cost savings and administration efficiency.

Further details of our service including platform availability, performance and charges can be found on our website, along with a range of support material. These include our AIM Quarterly Investor Factsheet and AIM Client Brochure, with hard copies available on request.

Our website can be found at:

www.thorntons-investments.co.uk



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The AIM market and Business Relief

Since 1995, the Alternative Investment Market (AIM) has helped nearly 4,000 small companies raise over £125bn, and has been a major boost for innovation, employment and growth.

Business Relief was introduced in 1976 (known then as Business Property Relief) allowing small businesses to be passed down through generations without incurring a liability to Inheritance Tax (IHT). As at June 2021 there were 826 AIM listed companies with a combined market value of over £147bn[^].

Over the years, the scope of BR has been widened, making it attractive to individuals looking to reduce or mitigate a potential IHT liability.

To qualify for BR, companies must be unquoted, however shares in companies listed on AIM are allowed, subject to strict conditions. The business must be considered a qualifying trading company, but there are exclusions, for example, companies which deal in stocks and shares, or land and buildings.

[^]London Stock Exchange Group



As at June 2021 there were 826 AIM listed companies with a combined market value of over £147bn[^].

Key Advantages

What are the *key benefits* of investing in Business Relief qualifying AIM shares for IHT planning?

Speed

BR qualifying AIM shares held at death are expected to qualify for 100% relief from IHT after being held for just two years. This allows more wealth to be passed on to beneficiaries. This compares favourably with other forms of estate planning such as gifts in excess of available exemptions, which would require the donor to live for seven years for the gift to become fully exempt from IHT.

Access

Investors still retain full ownership and access to their portfolio and can withdraw some or all of their investments at any time. They can request for shares to be sold should their circumstances change.

Simplicity

In comparison with AIM investment, traditional estate planning such as setting up trusts and gifting assets can prove complex and/or require medical underwriting.

Power of Attorney

Where the making of gifts, or trust transfers, are restricted or prohibited, an Attorney with the appropriate financial powers may invest in qualifying AIM shares. An Attorney must always act in the best interests of the donor given their personal circumstances.

Potential for capital appreciation

The diversification of companies listed on AIM provides opportunity for growth and for dividend payments.

Partner can inherit without need to restart two-year holding period

Where AIM shares in an ISA have been held for business relief and the client dies, the portfolio can be transferred to their spouse or civil partner using their additional permitted subscription, without losing the IHT exemption.

Where the deceased partner had not held their AIM shares for the full two years, the two-year holding period for Business Relief will continue without the need to restart again after the transfer.



Key Risks

What are the *key risks* to be aware of?

Potential for capital loss

The performance of shares in AIM-listed companies tend to be more volatile than those of larger companies and the risks of capital losses are greater. The value of investment may go down as well as up, and may end up being less than the initial sum invested.

Business Relief (BR) cannot be guaranteed

HMRC will assess AIM company qualification for BR when an investor dies, meaning a qualifying investment cannot be guaranteed to always remain so.

Tax rules may change

Rates of tax, tax benefits and allowances are based on current legislation and HMRC practice, and are dependent on an individual's personal circumstances. These are all subject to change meaning that tax reliefs cannot be guaranteed.

The investment may be difficult to sell

The shares of AIM-listed companies can be more difficult to sell than those of larger companies, and may be illiquid. Investors looking to sell may have to accept a price below the real value of the companies, and may experience delays in completing a sale.





Who could this be suitable for?

Those who wish access and control

Clients may be unwilling to give their money away, as they wish to retain full access to their investments. On death, the balance of qualifying AIM shares held for at least two years can then pass to beneficiaries free from IHT.

Those with larger ISA holdings

ISA holdings form part of your client's estate after they die, meaning that IHT may be payable on their value. Since 2013, AIM shares can be held within an ISA, allowing an investor to continue to enjoy tax-free growth and income and reduce the amount of their estate liable for IHT. Savings held in a Cash ISA can be transferred and used to purchase AIM shares.

Older clients with no IHT planning in place or where existing planning is no longer sufficient

In contrast to making a gift and having to survive for seven years, BR qualifying AIM shares held for at least two years and at death, are expected to qualify for IHT relief. For clients with health concerns, there are no medical underwriting requirements, unlike some trust investments.

Younger clients with a current or potential IHT problem

Some younger clients may have no immediate liability to IHT but face the prospect of an IHT problem in future, for example from an inheritance. Making an AIM/BR qualifying investment provides an opportunity to plan ahead, perhaps by using their annual ISA subscription.

Those who do not want a trust

Some clients may not want the complexity and costs of setting up a trust or may have difficulty in deciding who to appoint as trustee.

Clients with a Power of Attorney

Significant limitations exist for an Attorney to make lifetime gifts. An AIM/BR qualifying investment may provide a suitable IHT planning solution, with access to capital if required, for example care fees.

Clients wanting to settle assets into a discretionary trust

BR qualifying assets settled into a discretionary trust will not be subject to the 20% chargeable lifetime transfer. Providing these assets continue to be held by the trust, no further IHT is payable if the settlor dies within seven years, and no periodic charge is payable at year ten. Thereafter, no exit charges should be payable on capital distribution.

Business owners looking to sell, or who sold their business within the last three years

Where a business is sold for cash, the proceeds immediately form part of the estate for IHT purposes. However, where the business assets already qualify for BR, then should the proceeds be invested into BR qualifying AIM shares there is no need to restart the 'two-year clock'. The assets are expected to be immediately outside of the estate on death, and the investor retains access and control of their capital, along with the prospect for growth. This offers a suitable IHT planning opportunity for clients who are either considering selling their business, or who sold their business within the last three years.

IHT Planning and the use of BR Qualifying AIM shares

Case Studies

The following scenarios are intended for illustration only and should not be construed as providing advice. You should consider the impact of charges and tax, as well as suitability based on your client's individual investment objectives, needs and risk profile.

*Alastair wants **access and control**, but has **health concerns***

Alastair is in his late-60s and enjoying retirement despite his health beginning to fail. A good pension has made life comfortable and he recently sold his house in London to move to the seaside. He made a significant profit on the sale, and as this will fall into his estate on death, he has been considering his options.

With no family, he would like his niece and nephew to benefit from his estate on death. However, he is uncomfortable with making an outright gift as he will no longer have access to his capital in case he needs it, and is worried that he may not survive the seven years required for a gift to be outside his estate for IHT.

After discussing his situation with his financial adviser, and being aware of the risks involved, he accepts advice to invest £150,000 into an AIM IHT share portfolio. This gives him full control and access at any time should he wish to make a withdrawal. No medical underwriting is required.

After two years, the value of AIM shares Alastair holds at death will be expected to qualify for BR, and his niece and nephew as beneficiaries can expect not to have to pay any IHT on their value.

- Some clients may be reluctant to give up access to their capital
- Traditional estate planning solutions may not appeal given the seven-year survival period
- BR qualifying AIM shares are expected to qualify for 100% IHT relief after only two years



Malcolm and Jean's ISA investments present an inheritance tax problem

Spouses Malcolm and Jean are in their mid-70s and both have ISA investments, each valued at £200,000.

They enjoy tax free income and growth from their ISAs, so it was a shock for them to learn that ISAs are not entirely tax free as they may be subject to IHT on death.

They are worried that rising property prices and investment growth will give them an IHT problem. After discussing their concerns with their financial adviser, and being aware of the risks involved, they each decide to switch £100,000 of their existing ISA holdings into a qualifying AIM share portfolio.

Should either die within two years, their AIM share portfolio will not qualify for BR as it will not have been held for two years.

Should the surviving spouse wish to hold the AIM portfolio in their own ISA, the AIM shares in the deceased partner's AIM portfolio can be transferred across to their own ISA using their additional ISA subscription. This will allow them to retain the ISA benefits on the AIM portfolio after the death of their spouse. The two-year holding period is not reset, meaning that if held for the balance of the two years and at death, the AIM shares will be expected to qualify for BR and receive 100% relief from IHT.

Had the surviving spouse made their additional ISA subscription into the AIM portfolio by cash instead, the 'two-year clock' would have restarted.

- AIM shares can be held in an ISA
- Inter-spousal exemption for IHT is available on first death
- Surviving spouse will inherit an additional ISA subscription on first death



*Olivia sold her business in the last three years
but the proceeds are subject to IHT*

Olivia ran her own business for a number of years after the death of her husband. Looking to retire, she reluctantly sold the business for £1m two years ago, as her daughter Emily was not in a position to take over the running of the business.

Following a recent health scare, Olivia talks to her financial adviser about her options for leaving some or all of the proceeds of the sale to Emily, without it being subject to Inheritance Tax on her death.

During the time Olivia owned the business she could have left the business to Emily, and it would have been expected to qualify for BR. But having sold the business, she is concerned that investing the proceeds using traditional estate planning solutions, such as gifts or trusts, will mean she must survive for seven years before they become free from Inheritance Tax.

Her adviser explains that the rules allow some or all of the proceeds from the sale of a BR qualifying business to be invested back into BR qualifying assets, so long as this is done within three years of the sale of the business. Further, the newly purchased assets will continue to benefit from up to 100% relief from Inheritance Tax immediately.

Following her adviser's advice, and being aware of the risks, Olivia invests into an AIM IHT portfolio. As Olivia's investment qualifies for replacement relief it is immediately exempt from IHT. Olivia can leave her investment to Emily in the knowledge that it is expected to qualify for 100% relief from IHT on her death.

- Client owned businesses often have to be sold because of ill health or if family cannot continue to run
- Proceeds from the sale may be subject to IHT
- A business sold within the last three years may still qualify for replacement relief



Contact

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IHT Portfolio Service, please contact:

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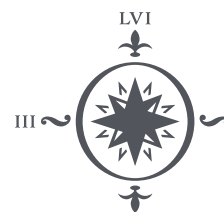
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