Inheritance Tax Portfolio Service

What is inheritance tax?

If you are thinking about how best to help your loved ones financially after you pass away, it is important to consider whether your estate could be affected by inheritance tax (IHT) – which is a tax on the value of your 'estate', i.e., the total value of all your assets such as property and money, less any liabilities such as debts.

Could I be affected by inheritance tax?

Inheritance tax is often wrongly assumed to apply only to the super rich, however more and more people are unwittingly becoming liable for IHT. You may be surprised to learn that the threshold for inheritance tax is £325,000, and that the standard IHT tax rate is 40% on anything above this. It is increasingly likely that you may be liable for inheritance tax, as the proportion of estates caught by IHT is rising. This is because property values have risen sharply, bringing more people over the threshold. This could mean that your loved ones might receive considerably less of your wealth than you had hoped to pass on.

Inheritance Tax Portfolio Service

13%

of people will have inheritance tax due on their estate after their death or the death of their partner by 2033

How will I know if my estate will have to pay inheritance tax?

Our specialist Wealth Planning team can assess your assets and circumstances to see if you could be liable for inheritance tax, and advise you on any exemptions you could qualify for.

What options are available to mitigate inheritance tax?

Fortunately, there are a variety of solutions you can use to help alleviate the effects of inheritance tax on your estate. While each option has advantages, disadvantages and no certainties, you should bear in mind that if your estate is caught by inheritance tax then without taking any action you are guaranteed to pay IHT.

Gifting: You can permanently give away assets to your loved ones during your lifetime. It is important to note that if you die within 7 years of making the gift, it may still be classified as part of your estate for inheritance tax purposes and could use up some or all of your IHT nil rate band.

Trust creation: It is also possible to set up a trust to indirectly give away assets – however this can often be a complex area of planning that requires lawyers.

Our Wealth Planning team can give you further information on any of these options.

Inheritance Tax Portfolio Service

Another key solution that may reduce the amount of tax payable on your estate is to use an 'Inheritance Tax Portfolio Service' that takes advantage of 'business relief.'

What is business relief?

This is a tax relief enabled by government legislation which has been in place since the 1970s. It is designed to encourage investment in UK companies in exchange for exemption of up to 100% from inheritance tax on qualifying investments, provided they have been held for at least two years at death.

Investments that qualify for business relief are typically in shares of eligible 'unquoted' companies (i.e. those that are not listed on a stock exchange), or shares in qualifying companies listed on UK stock exchanges such as AIM (formerly known as the Alternative Investment Market) and Aquis Exchange PLC (formerly known as NEX Exchange).

How does the JM Finn Inheritance Tax Portfolio Service work?

Our IHT Portfolio Service takes advantage of business relief to allow investors up to 100% of the value of those investments to be excluded from the value of their estate for IHT purposes.

The portfolio invests in qualifying investments, primarily shares listed on 'AIM' and occasionally also those on Aquis Exchange. It does not invest in unquoted securities or privately owned companies.

An overview of AIM

AIM (formerly known as the Alternative Investment Market) is a sub-market regulated by the London Stock Exchange in its capacity as a Recognised Investment Exchange (RIE).

Stocks listed on AIM are considered higher risk than those listed on the London Stock Exchange (LSE) because they have less stringent listing requirements for new entrants. The companies listed on it tend to be at an earlier stage in their life cycle, or smaller, which may make their performance more volatile.

There are also many well-established companies listed on AIM, including household names such as soft drinks company FeverTree, the pub chain owner, Young's, Lok 'n' Store storage and shoe retailer ShoeZone. AIM has become the leading exchange for smaller companies in Europe and, indeed, for many companies seeking listings from other parts of the world including India and China.

Aquis Exchange PLC Growth Market

This is another UK-based stock market which has even fewer regulations than AIM. It is also aimed at relatively new companies that are seeking to expand. It has two segments: 'Access', aimed at early-stage companies that do not have a long trading history, and 'Apex' which caters to larger, more established companies that have a longer track record.

Our experience in IHT investing

Investing in companies that qualify for business relief can be more risky than investing in FTSE350 companies because it typically involves investment in smaller companies that are subject to shorter trading history, low levels of liquidity and higher levels of volatility.

Investing is therefore best suited to experienced investors who specialise in this area and are highly skilled at assessing the quality of companies for IHT investment purposes. IHT rules are also complex and ever changing – so mitigating IHT through this route requires specialist professional guidance.

IHT Portfolio Manager profile

Andrew has managed JM Finn's Inheritance Tax Portfolio Service since 2012.

He has vast experience in managing IHT portfolios dating back to 1995 when the Alternative Investment Market, (now 'AIM') was first introduced.

This includes managing tax-efficient investments, inheritance tax, enterprise investment scheme (EIS) and venture capital trust (VCT) portfolios. In addition to his specialism in inheritance tax investing, Andrew also manages conventional private client portfolios.

Andrew is an Honours graduate in Business Studies and a Chartered Fellow of the Securities Institute. He started his career with Hambros Investment Management in 1986 and then moved to Singer & Friedlander Investment Management in 1995.

> I have watched the AIM market grow and develop since its launch in 1995. There are now some real opportunities that can be found with prudent stock selection.

Andrew Banks
Senior Investment Manager

Our IHT Investment Portfolio Service

We create portfolios consisting of companies that qualify for business relief. We look for companies that are established, profitable and usually dividend paying, with strong financial attributes and stable management teams with good track records.

We conduct thorough due diligence on companies to decide if they may be suitable for us to invest in – spending a lot of time getting to know management teams to assess their strategies and business opportunities. We also maintain a regular programme of meetings after investment to ensure that the investment rationale remains sound.

What are the potential benefits and risks of the JM Finn IHT Portfolio Service?

Benefits

Fast time to qualify for IHT exemption:
After just 2 years of ownership, qualifying investments in your IHT portfolio may fall outside of your estate for inheritance tax purposes, much quicker than the '7 year rule' for gifts.

Keep ownership and control:
You continue to be the beneficial owner of the assets held in your portfolio instead of giving them away permanently.

Avoids the need for trust creation:
With an IHT portfolio there is no need to set up a trust or engage with any complex legal structures, which can often be costly to set up.

Flexibility to sell assets:
If your financial circumstances change, you can cash in shares in your IHT portfolio, subject to market liquidity.

Potential to receive dividends and growth on your investment:
We are also able to tailor portfolios to suit your individual investment objectives – including capital growth, income or a balance of both.

Risks

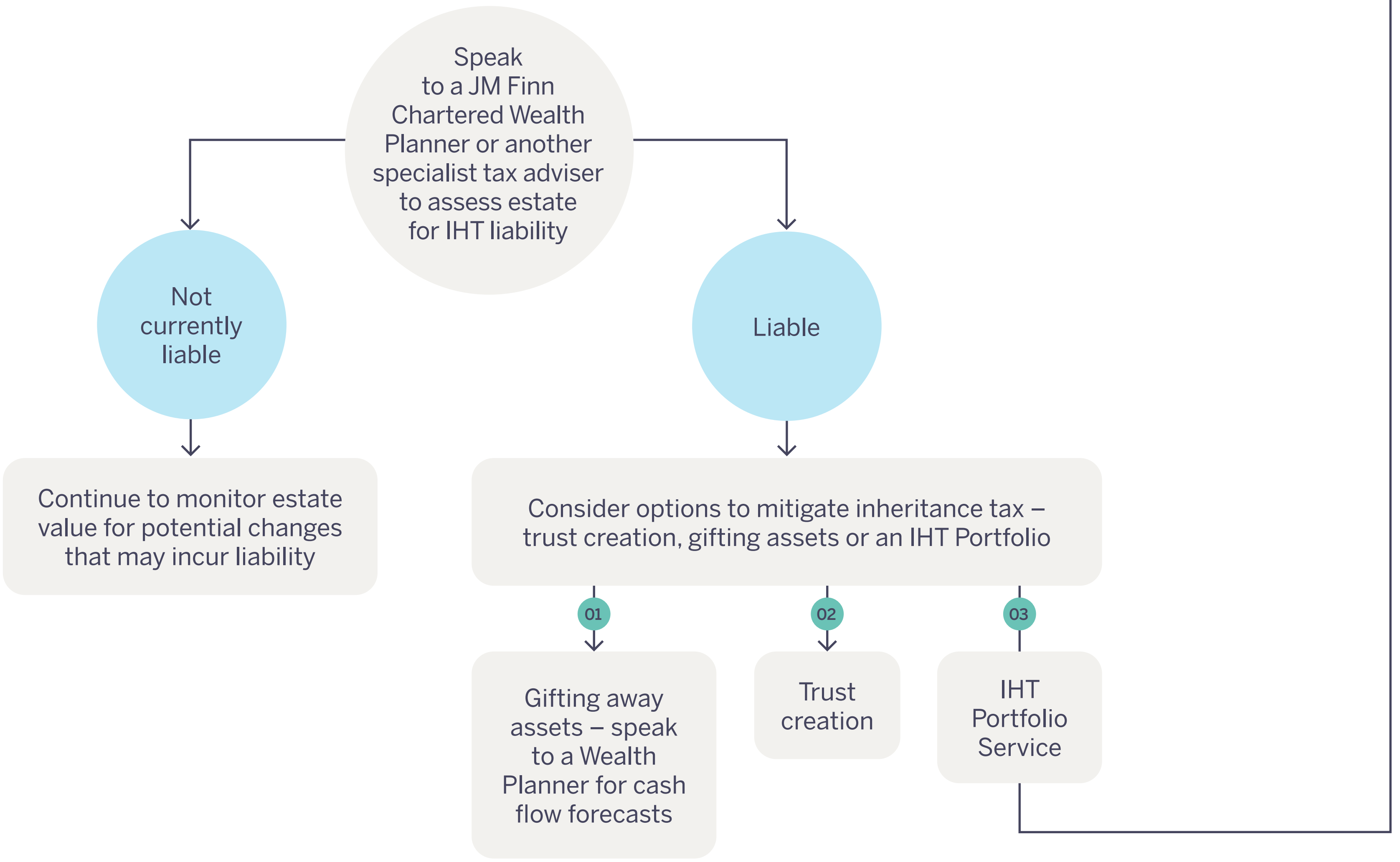
High risk:
Because of the nature of the companies and markets in which the IHT Portfolio Service invests, the underlying shares are high-risk investments, and the possibility of losing money is therefore also greater, especially for those who are not experienced in investing in higher risk assets.

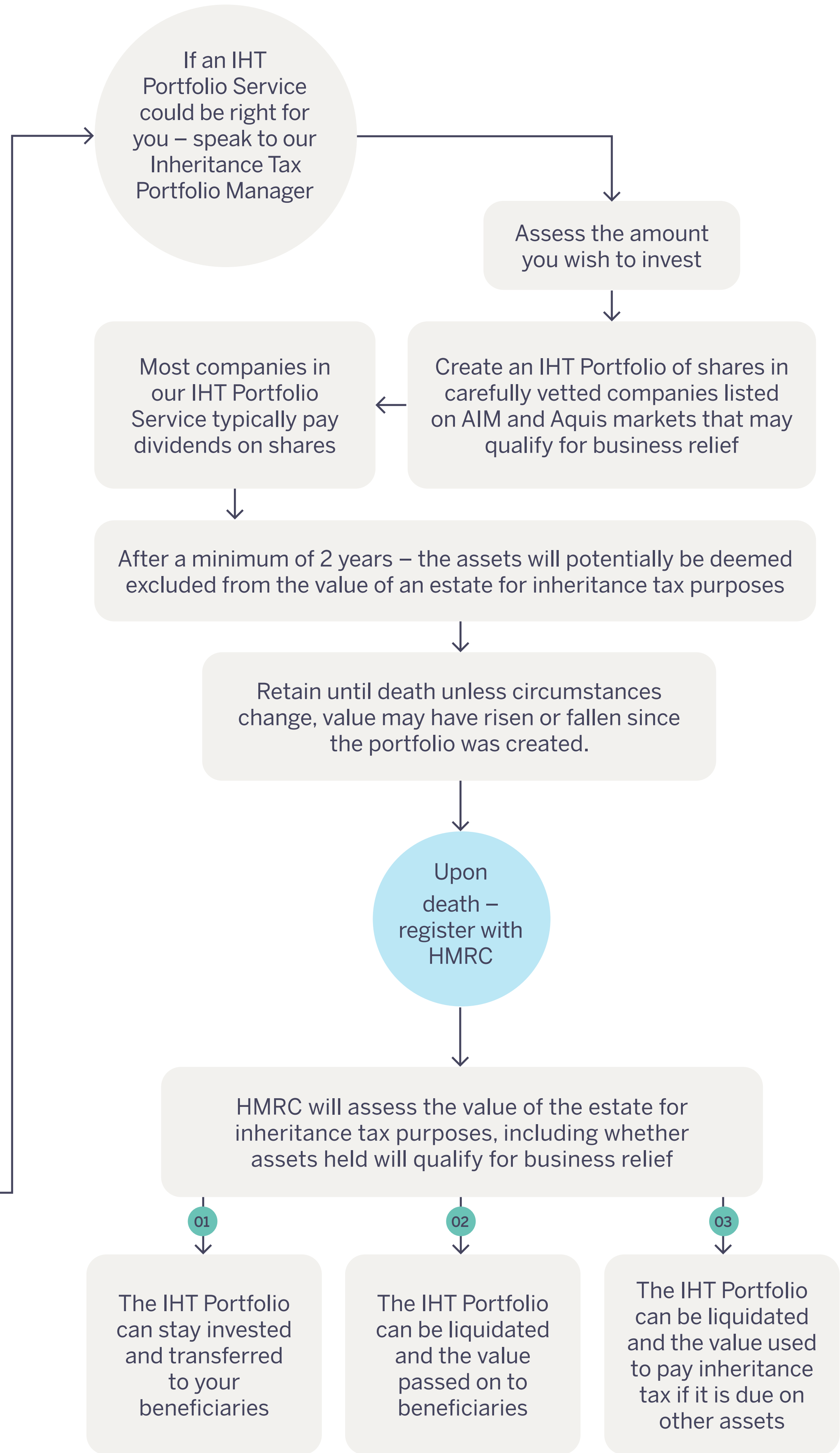
Liquidity may be limited, and share prices can fluctuate:
It can potentially be difficult to sell shares held in an IHT portfolio because shares in AIM or Aquis listed companies are not as liquid as larger listed shares. This means you may not be able to sell your shares immediately and may have to accept a lower price than you paid.

Investments must be held for at least two years to qualify for business relief:
A portfolio designed to mitigate IHT is not suitable for those who cannot remain invested for at least two years. Additionally, investments should be viewed as long term in order to mitigate some risk of short-term volatility.

Business relief legislation may be subject to change:
Business relief is applied for during probate and is subject to assessment from the HMRC – therefore there can be no certainty that tax relief will be granted.

Inheritance tax investment process





Inheritance Tax Portfolio Service

Case study: The impact of using an IHT Portfolio Service

Without an IHT Portfolio

Mrs X has a property value worth £900,000, an Investment Portfolio worth £750,000 and other assets worth £150,000 – giving her a total estate value of £1,800,000.

When Mrs X passes away, the IHT nil rate band of £325,000 is applied to her estate, leaving a value of £1,475,000 that will be taxed at 40%.

Mrs X's estate pays a total of £590,000 in inheritance tax, which when deducted from the £1,800,000 estate leaves her beneficiaries with **£1,210,000**.

With an IHT Portfolio

Mrs X has property worth £900,000 and other assets worth £150,000. She invests £300,000 in an IHT Portfolio and keeps the remaining £450,000 in an Investment Portfolio – her total estate value is £1,800,000.

When Mrs X passes away, the IHT nil rate band of £325,000 is applied to her estate and business relief is also applied to remove the value of the £300,000 IHT portfolio, leaving an estate value of £1,175,000 that will be taxed at 40%.

Mrs X's estate pays a total of £470,000 in inheritance tax, which when deducted from the £1,800,000 estate leaves her beneficiaries with **£1,330,000**.

By using an IHT Portfolio, the value of her estate at death was the same but Mrs X was able to leave £120,000 more to her loved ones than without using an IHT Portfolio.

	Estate without IHT Portfolio	Estate with IHT Portfolio
Property value	£900,000	£900,000
Investment Portfolio	£750,000	£450,000
IHT Portfolio	-	£300,000
Other assets	£150,000	£150,000
Total	**£1,800,000**	**£1,800,000**
Nil rate band	£325,000	£325,000
Taxable estate	£1,475,000	£1,175,000
Inheritance tax payable (40% rate)	£590,000	£470,000
Residual estate	**£1,210,000**	**£1,330,000**
Tax saving passed on to beneficiaries	-	**£120,000**

These figures are for illustrative purposes only. Please remember that the value of your investments can go down as well as up and you may not get back your original investment. Investments in the Inheritance Tax Portfolio Service are in high-risk securities and are therefore likely to have high levels of volatility with a significant risk of losing more money than the IHT saving.

Industry-leading service standards

Our success as a firm spans over 75 years, and can be attributed to a steadfast focus on providing superior client service.

We surveyed our clients in 2023 to explore their perceptions of the service we provide, and are pleased to say that 95% of those surveyed said they had trust and confidence in JM Finn as a firm, and the same percentage had trust and confidence in their Investment Manager at JM Finn.[2]

Next steps

As with any high-risk investment, sound financial advice is required before embarking down this route. We would advise you to talk to one of our Wealth Planners or an independent professional adviser to determine whether the Inheritance Tax Portfolio Service might be suitable for you.

Fees

Our IHT Portfolio Service fees are charged as banded percentages based on the amount held in your portfolio. Full information on any fees you could expect to pay would be given during an initial meeting with the IHT Portfolio Service Manager.

[2] Source: An independent survey of 1,671 clients of JM Finn was conducted in 2023 by Savanta. Figure is NET all who strongly agree/ agree.

> Very satisfied with superb personal service and their ability to efficiently manage my portfolio.

Important Notes

Investment carries risk and their value as well as the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance is not a reliable indicator of future returns.

The Alternative Investment Market (AIM) is an unregulated exchange and tends to be made up of small sized companies. These securities are deemed to be high risk investments, and the possibility of losing money in such investments is therefore also high.

The investments and services discussed in this document may not be suitable for all investors. This document is for information purposes only and does not have regard for any specific investment objectives, financial circumstance, or the needs of any specific investor.

You are strongly recommended to seek advice from a qualified professional in relation to your personal financial situation and the suitability of the services and investments discussed in this document.

Business Property Relief is not guaranteed and remains at the discretion of HMRC to be determined on the death of the individual. The individual could die before the two year BPR qualification period has been achieved. It is important to note that the BPR tax regime itself could be withdrawn by the UK Government at any point in the future. Tax treatment depends on individual circumstances and may be subject to change in the future. The tax rates, benefits and allowances referred to in this document are accurate at the time of writing,

Get in touch

If you have any questions about how we can help build the future you want to see, please call

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