For Professional Clients Only

LEGACY PLANNING

You don't have to be particularly wealthy to leave behind a large inheritance tax bill when you die. However, there are ways to invest that could help you to pass on more of your wealth to your family.

If you've been carefully building up assets throughout your life, you probably want to pass on as much of your estate as you can to your family when you die. If you don't plan ahead, the part of your estate that exceeds the inheritance tax threshold of £325,000 could be taxed at 40%. This means that your family may miss out on a significant portion of your wealth. Traditional estate planning solutions can be inflexible. For example, if you give away your assets to family and friends during your lifetime, these gifts take seven years before they become exempt from inheritance tax. Similarly, putting assets into a trust also takes seven years before the value of the assets falls outside of your taxable estate. Both of these options result in you no longer being able to access your wealth if you need to. Also, for many people, giving away their hard-earned money and investments can be very unattractive.

Gift
Some gifts are always inheritance tax free. For a start, any gifts between spouses or civil partners are free from inheritance tax. HMRC also gives you an annual gifting allowance of £3,000 every year. This is called the 'annual exemption'.

Trust
People usually set up trusts as a way to make sure assets are kept in the family over generations. The biggest advantage of trusts is that they can be set up exactly in line with your personal wishes.

Taking out life insurance to pay inheritance tax
There are two types of policies that can help with inheritance tax: whole-of-life assurance and term insurance. Assurance is intended to cover you until you pass away, whereas insurance covers you for a set period of time.

Inheritance Tax Free Exemption

Business Relief is a tax relief that encourages investment in trading businesses, regardless of whether the investor runs the business. It specifically rewards those investors willing to accept the potential additional risk of investing in companies that aren't listed on the main market of the London Stock Exchange. Investments that qualify for Business Relief can be passed on free from inheritance tax upon the death of the shareholder, provided the shares have been owned for at least two years. There is no maximum amount of investment that can qualify.

You could benefit from investments that qualify for Business Relief

Client Scenario	Potential Solution (for clients with an appropriate risk profile)
Clients who need a fast inheritance tax (IHT) solution	Investments in business relief-qualifying shares (BPR.) qualifying shares will be exempt from inheritance tax after just two years, provided they are still held at the time of the investors death
Clients with Power of Attorney in place	business relief-qualifying investments may be a suitable investment where gift or trust transfers are restricted or prohibited under Court of Protection rules
Clients who are ill/in poor health	Underwriting is not required for business relief-qualifying investments
Clients who want access/control - e.g. for care fees	Clients retain 100% of their business relief-qualifying investment and can make regular withdrawals if needed (subject to liquidity being available)
Clients looking for diversification	Business relief-qualifying shares investments are available targeting capital preservation or capital growth
Business owners looking to exit	Clients disposing of a business relief-qualifying business can invest some or all of the proceeds into new business relief-qualifying shares within three years and benefit from immediate relief from IHT on their new investment
Clients with large ISA portfolios	Transferring ISAs into an ISA that is invested in business relief-qualifying shares enables IHT exemption on the ISA portfolio after two years
Clients looking to settle assets into a trust	Settling business relief-qualifying investments into trust does not incur a 20% lifetime charge
Clients looking to qualify for a Tier 1 (investor) visa	Business relief-qualifying shares shares are likely to be qualifying investments for the purpose of obtaining a Tier 1 (investor) visa

Key benefits

More of your wealth can be passed on to your family

Speed - Your investment should become free of inheritance tax after just two years – as long as you still hold the shares at the time of your death.

A simple process - There are no complicated legal structures (as with a trust) and no medical underwriting (as with an insurance policy).

Access to your investment
You can ask us to sell your shares at any time, and you can even set up regular withdrawals if you want them.

A capital preservation target
The companies invested in, target capital preservation and a modest return.

Business owners have more complicated tax arrangements than most clients. But for those prepared to accept the risks of investing in smaller companies, tax-efficient investments have the potential to deliver smart solutions.

The benefits of tax-efficient investing

Most investors are aware of the benefits of investing tax-efficiently, most commonly through a pension or an Individual Savings Account (ISA). But investors with significant sums to invest each tax year may want to consider VCTs and EIS, both of which offer incentives including the potential for tax-free growth. VCTs and EIS have the added attraction of providing investors with up-front income tax relief at the time the investment is made. It is important to consider tax-efficient investments as part of a well-diversified investment portfolio.

Comparing VCTs and EIS

	Venture Capital Trust	Enterprise Investment Scheme
Structure	A listed company that invests in a portfolio of other companies	A single unlisted trading company
What does it do?	Invests in a portfolio of small and medium sized companies not listed on the main market of the London Stock Exchange.	Undertakes a trade in a qualifying sector. Often EIS-qualifying companies are in the very early stages of their lifecycle
Income tax relief on the amount invested	Up to 30% income tax relief on investments (up to £200,000 in any tax year)	Up to 30% income tax relief on investments (up to £1 million in any tax year).[1] This is also available on an investment backdated to the previous tax year
Tax-free dividends	Yes, and VCT dividends are not included in any individual's £5,000 dividend allowance.	No
Tax-free capital gains	Yes, if the value of shares held has increased, the investor will not be liable for capital gains tax when they choose to sell them	Yes, provided income tax relief has been given and not withdrawn
Inheritance tax relief	No	Yes, provided investment held for two years and at time of death
CGT deferral	No	Yes, investors can shelter 100% of a capital gain in an EIS for the lifetime of the EIS investment
Minimum holding period	Shares must be held for at least 5 years in order to retain income tax relief	Shares must be held for at least three years in order to retain income tax relief

Reasons to invest in VCTs
Investors wishing to supplement their income during retirement often invest in VCTs because of their potential to pay tax-free dividends.

Reasons to invest in EIS
An EIS can help investors with a large capital gains tax (CGT) liability (for example after selling shares), as they can invest the gain in an EIS and the capital in another investment.

Investing in VCTs to complement existing pension arrangements

	ISA	Pension	VCT
Upfront income tax relief on initial	None	20-45%	30%
investment Annual personal limits	£20,000	£10,000-40,000	£200,000
Lifetime personal limits	None	£1 million	None
Minimum holding periods	N/A	No access until 55+	Five years
Ongoing tax benefits	Tax-free growth and dividends	25% tax free, rest is taxed	Tax-free growth and dividends

As well as delivering upfront tax relief on investments, having access to money invested in a VCT after only five years can be attractive for those who may want to access it before they retire or for those who may want to re-invest the money in another VCT.

Investing in a VCT could help high-earning staff or directors at risk of hitting the Lifetime Allowance for pension contributions.

How a VCT can help
A high earner could consider investing annually in a VCT, steadily building a tax-efficient investment to sit alongside their pension.

One of the biggest attractions of VCTs – particularly among income-seeking investors – is the potential to pay tax-free dividends. However, VCT dividend payments aren't guaranteed, so investors should take a close look at the track record of the VCT manager, the investment policy and any dividend targets the manager will be looking to achieve.

Isn't it time you made a will?

To find out more about how **FOL WEALTH** can help you, please contact us directly on:

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Risk Warning

Your investment is made in unquoted or smaller company shares which carry higher volatility and liquidity risk than mainstream shares and investment funds. The value of the investment is determined by the scheme provider and will not be available on a daily basis. This means it will be difficult to obtain valuations for your investment. As the investment can be subject to high levels of volatility it may not return the original capital invested. It may be difficult to access the capital either as a lump sum or as a partial withdrawal. It should be noted the investment will not automatically pay out on death. Tax legislation can be changed at any time and Business Property Relief could be amended or withdrawn entirely. The availability of tax reliefs also depends on the invested company(ies) maintaining their qualifying status, which can be at the discretion of HMRC. Past performance is no guide to the future.

If long term care is needed in the future it was discussed and explained that this investment would be included in the financial assessment by your local authority when calculating your ability to pay care fees.

Important Information

This document is for investment professionals only and should not be relied upon by retail clients.

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