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An Adviser's Guide to

Business Relief

Everything from the most recent practical updates and useful tips to current technical insights and changes

Third Edition

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An Adviser's Guide to

Business Relief

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Introduction

Welcome to the third edition of An Adviser's Guide to Business Relief. There has been lots going on since our last edition, so there are plenty of new considerations and updates for you to scrutinise. Any rules changes and technical tit-bits are reflected in this new version, for everyday, practical reference. The thought leadership has been refreshed with new contributions from industry experts and the case studies are right up to date with 2021/22 tax rates and allowances. We've also included a summary of the latest FCA finalised Guidance in relation to vulnerable clients in the Recent Developments section. This is a follow up to the in-depth discussion of the Guidance in the second edition.

You will also note that, in an attempt to be more environmentally friendly and to save you from unnecessary reading, where there have been no changes in a particular Business Relief area since our second edition, we either refer you back to that edition or provide a shortened summary.

P.S., for insights and opinions on BR, with market analysis and provider and adviser discussions, we have a Quarterly Update which is available free of charge from Intelligent Partnership.

intelligent. partnership*

Learning Objectives

After reading this guide, advisers will be able to:

- Describe the rules and practicalities that govern the relief.
- Identify the main structures through which BR investment can be achieved in practice in various estate planning scenarios, including in conjunction with other estate planning options.
- Explain how the deferral of estate planning can negatively impact tax-efficient legacies.
- Define the main drivers for estate planning and Business Relief investment.
- Determine the right circumstances under which Business Relief can be used and how.

After you have reviewed this publication and before we fulfill your CPD certification request, we will be requesting your feedback on it. Your collaboration will assist us to enhance the learning activity, and will inform improvements to future publications. Information about claiming CPD can be found at the back of this guide.

Acknowledgements

A guide like this is rarely the product of one organisation's efforts: to ensure that it is up to date, comprehensive, accurate and captures all of the key issues requires an industry-wide initiative.

We've had plenty of help producing this guide and would like to thank Tish Hanifan, Kay Ingram, Dave Seager and Paul Mounce. Their input is invaluable, but needless to say any errors and omissions are ours.

Most of all we would like to thank our sponsor TIME Investments. It would not be possible to produce educational material like this without their generous support and contribution towards the production, printing and distribution of the guide.

NIGEL ASHFIELD

MANAGING DIRECTOR, TIME INVESTMENTS

Opening Statement

The last edition of this guide came out in September 2019; in many respects the whole world has changed since then with the outbreak of a global pandemic that no-one could have anticipated. During this period Inheritance Tax (IHT) receipts have continued to rise, hitting £5.4 billion in the 2020/21 tax year. The government is committed to a high tax environment to offset the unprecedented spending during the pandemic - it chose to freeze both the Nil Rate and Residence Nil Rate Bands until 2026, which it expects will raise nearly £1 billion over the next five years**.*

The pandemic and multiple lockdowns provided an opportunity for many to take a step back and reassess their priorities. For many of your clients this may have meant considering their finances, perhaps reaching out to discuss funding their current lifestyle, looking ahead to retirement, or the legacy they want to leave behind.

Increasingly many clients recognise that leaving a legacy is no longer solely about passing money down to the next generation. A legacy also encompasses how you want to be remembered and what impact you want to have on the world. For this reason, there has been a surge in interest for positive impact investments.

Many BR investments provide access to sustainable sectors, such as renewable energy generation or forestry, which means clients can choose to leave a financial legacy for future generations whilst their investment creates a positive impact during their lifetime. A section of this guide is dedicated to sustainable investing, particularly how to demonstrate the positive impact potential of BR portfolios, so I recommend you refer to pages 16 - 21 and 33 - 34 for more information.

Government restrictions during the pandemic made it much more difficult for advisers to see their clients, and some clients may have been reluctant to make new investments during these periods of uncertainty. Whilst this is clearly understandable, if a client's primary objective is to maximise their financial legacy, a delay may not be in their best interest. Section 8 of this guide discusses the cost to the client when a decision is deferred, and the ways you can work with clients to reassure their concerns.

BR investments have grown in popularity over the last decade, this has led to an increase in the number of BR providers offering IHT mitigation services. Whilst the growth of the BR market is a positive development, this increased choice can make it difficult for advisers to effectively decide which BR service will be the best fit for their clients' IHT planning needs. Assessing the suitability of BR investments is crucial and I personally recommend that you read the due diligence section on page 42.

We believe BR is an essential component of every adviser's toolkit. With a full understanding of BR and the various planning opportunities it can offer clients, advisers can add another element to their IHT planning. This guide is intended to provide readers with everything they need to be comfortable with BR and knowledge of how to use it at the right time for the right client.

* Inheritance Tax Statistics: Table 12.1, analysis of receipts, HMRC, July 2021

** Budget 2021: Policy costings, HM Treasury, March 2021

IHT as it Stands

The original purpose of the relief when it was introduced in 1976, was to prevent small businesses having to be broken up and sold to raise the funds required to pay the IHT liability when the business owner passed away.

BR is a statutory relief, enshrined in law, and has gone through various changes to its scope and developments of its rules.

Managers who specialise in these investments began launching estate planning services in response to growing consumer demand. The first of these was launched in the 1990s and that service continues today as TIME:CTC.

Since then, the number of BR services has soared to offer a wide range of objectives, risk profiles and investment strategies.

BR now also acts as an incentive to encourage investment into qualifying, unquoted small businesses which account for a large proportion of employment in the UK, and of course make a large contribution to the tax base.

With the 2021 Spring budget freezing the nil rate band (NRB), residence nil rate band (RNRB), and the pensions lifetime allowance (LTA), more estates are likely to find themselves subject to IHT and the demand for estate planning, including BR, could be driven up.

Timeline of relevant events

1976
30% Business Relief established

1987
50% Business Relief established

1992
100% Business Relief established

1996
The 100% relief was extended to minority investors in a qualifying company. Fund managers started to build relevant share portfolios for individuals

2013
Rules changed: use of debt to acquire BR shares invalidates IHT mitigation

+

AIM shares become eligible to be held in an ISA

2014
Abolition of 0.5% stamp duty on shares traded on AIM

1.1

Developing Drivers

BR qualifying investments are considered riskier than some other estate planning solutions. However, there are some key drivers behind a meaningful increase in the market for investment based IHT solutions that utilise BR.

The baby-boomer generation (those born between 1946 and 1965) are estimated to control 80% of private wealth in the UK. As they are now starting to retire, their financial objectives are changing and they are starting to consider estate planning. However, they are also faced with making provision for much longer retirements than any previous generation as a result of increasing life expectancy.

While an Oxford University research study published in January 2021 found that in 2020, life expectancy for both men and women reduced by over a year as a result of Covid, it's worth noting the massive increase in life expectancy over the last fifty years, with advancements in health care and growing understanding of lifestyle factors. In 1970, average life expectancy from birth in the UK was 71.71 and by 2021, even after the worst impacts of Covid-19 it was just under 80.

The over 65s in the UK population are projected to make up 25% of it by 2035 and the number of over 85s is set to double by 2044.

The longer we live, the more money we are likely to need. Unpredictable expenses could include care costs, for which the average UK annual residential cost (including nursing) reached almost £50,000 in 2020.

The government announced changes to the social care system in September 2021, to be funded by rises in dividend tax and national insurance and to become known as the Health and Social Care Levy, with the pledge that, "from October 2023, no person starting adult social care will have to pay more than £86,000 for personal care over their lifetime." In the meantime, though, no such limit applies and when it does, Scotland, Wales and Northern Ireland will not be included.

What's more, the Institute for Fiscal Studies has said that, "it is clear that the extra funding will not be sufficient to reverse the cuts in the numbers receiving care seen during the 2010s. Thus, while more people will become entitled to financial support as a result of the reforms planned, many people with care needs [that are] not considered severe enough will continue to miss out."

It is also worth remembering that the £86,000 cap relates only to care costs, not the initially far higher accommodation costs.

Then there is the growing complexity of families, with around 100,000 divorces a year in the UK and households containing multiple families (blended families) being the fastest growing type of household over the last two decades, having increased by three-quarters to 297,000 in 2019.

The more complex our families and relationships are, (with children, grandchildren and perhaps great grandchildren, second and possibly third marriages and step children...) the more calls there are on our funds and the more we may want those funds to continue to grow, but also be IHT- efficient to enable meaningful legacies.

Age & care statistics

400,000
long-covid sufferers in the UK
(Office for National Statistics, June 2021)

60+
age of 23% of the UK population
(ONS, 2019)

> *As the average age of the family rises, there is a higher incidence of the chronic health conditions that are more prevalent in older people. In addition, the costs of providing care to family members across the life course can be financially crippling and eat into legacies.*

THE INTERNATIONAL LONGEVITY CENTRE, THE 100-YEAR FAMILY, FEBRUARY 2020

This makes gifting assets to beneficiaries much more problematic, as the donor may need those funds. Consequently, access to funds is an important consideration; conventional estate planning solutions such as gifts and trusts require donors to give up access to their funds and usually sacrifice investment growth and thereby any way to offset inflationary erosion. The increase in illnesses which cause mental incapacity also necessitates a solution which works when a Lasting Power of Attorney (LPA) is in place.

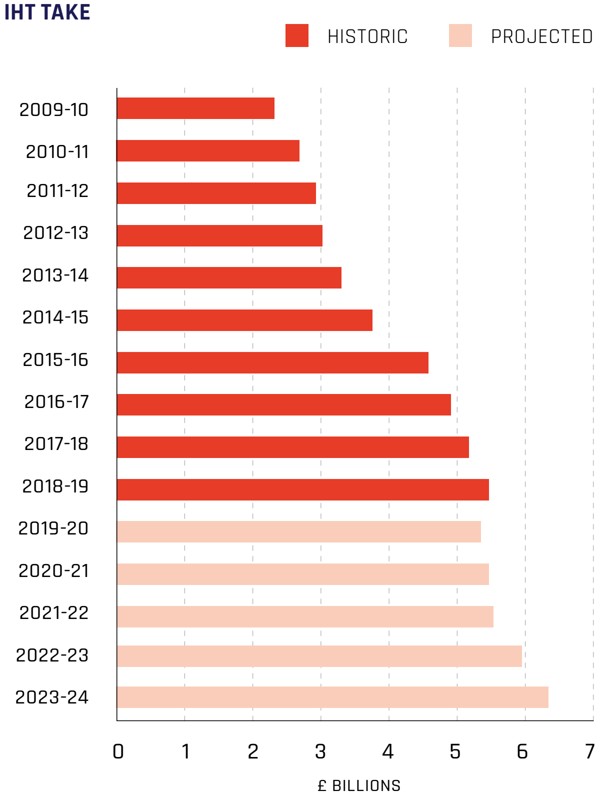
In 2021/22 the conventional Nil Rate Band was frozen for another five years. By the end of that period it will have been static for 17 years. This has been one of the factors in rising IHT receipts.

While the introduction of the Residence Nil Rate Band (RNRB) in 2017 did put a small dent in IHT receipts when its results filtered through to the 2019/20 figures, projections from the Office for Budget Responsibility (OBR) show record-breaking totals again from 2021/22. So, mitigating IHT is no longer just a problem for the very wealthy, but now affects the mass affluent as well.

The two-year qualification period of BR qualifying investments (as opposed to seven years for gifts and trusts) can help the very elderly (who perhaps previously felt they would not be caught in the IHT net) or people in poor health who have not made any provision for estate planning and may otherwise feel they have left it too late.

Finally, BR qualifying investments are a good fit for business owners who are either seeking to preserve their BR qualification to fall outside of the charge to IHT when they sell the business, or who have an excessive cash balance within the business that may limit the availability of BR IHT relief.

HISTORIC AND PROJECTED INCREASE IN GOVERNMENT IHT TAKE



SOURCE: OBR AND HMRC, MARCH 2021

1.2

Key BR Rules

The relief cannot be guaranteed upfront. As with many other taxes, HMRC only makes an assessment when a claim is made: either by the executors of the deceased's estate or when there has been a lifetime transfer*. So, even if a business is likely to qualify for BR at the point of investment by a client, if that business subsequently changes its activities to non-qualifying activities or secures a listing on a recognised stock exchange, it may no longer qualify.

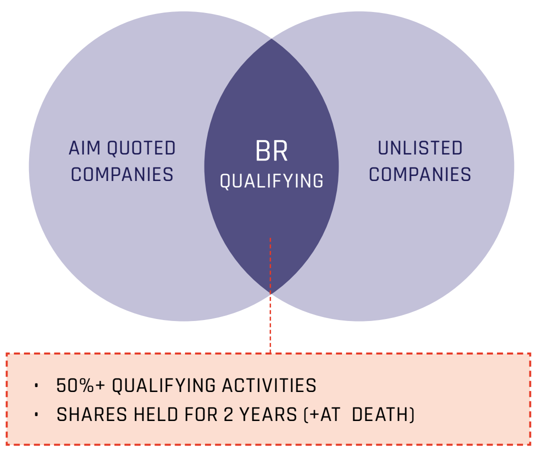
BR Qualifying Conditions for 100% IHT Relief

Unquoted shares in qualifying 'trading' companies (a business run on a commercial basis with a view to profit), subject to the relevant conditions, qualify for 100% relief from IHT with the benefit of BR and shareholders need not be a director, work full time in the company or hold a minimum number of shares. The shares can also be preference or non-voting shares.

> *Above all, we will embrace the instincts and know-how of the wealth creators, those in the private sector who invest money.*

BORIS JOHNSON, PRIME MINISTER, BUILD BACK BETTER, MARCH 2021

BR companies that qualify for 100% IHT relief



% Available BR Relief:

100% RELIEF AVAILABLE ON

★ A business or an interest in a business

★ Shares in an unlisted company

50% RELIEF AVAILABLE ON

★ Shares controlling more than 50% of the voting rights in a listed company

★ Land, buildings or machinery owned by the deceased and used in a business they were a partner in or controlled

★ Land, buildings or machinery used in the business and held in a trust that the deceased has the right to benefit from

* Lifetime transfers of value (e.g. gifts) that are immediately chargeable to IHT. In general, a lifetime gift is immediately chargeable (chargeable lifetime transfer (CLT)) unless it is an exempt transfer or a potentially exempt transfer (PET).

The relevant conditions that must be met are:

1 **The shares (and relevant business property) must be held for at least two years prior to death.**

–But qualifying business property may also be treated as satisfying the two-year minimum ownership period where it replaces (either directly or indirectly) other qualifying business property. The replacement asset must be bought within three years of the disposal of the original relevant asset. BR applies, provided the ownership periods of qualifying assets total at least two years in a continuous five-year period.

–And, if the property was inherited, it is deemed to have been owned from the date of death, unless it was inherited on the death of a spouse or civil partner. In this case, the surviving spouse or civil partner will be treated as having held the relevant asset from the original date of investment, rather than the date of death.

2 **The company's main activity must not be non-qualifying.**

Where shares are held, or there is a business or an interest in a business, the main activity must not be non-qualifying. So, if the company deals in shares, makes or holds investments, or deals in land or buildings (although property development companies are eligible, whilst property lettings businesses are not), then it will not qualify for BR.

3 For the purposes of BR, HMRC defines unquoted shares as those which are not listed on a recognised exchange. However, the Alternative Investment Market (AIM) and the Aquis Exchange (Aquis) are not classed as recognised stock exchanges and suitable shares listed on these markets are eligible shares for BR. (Consequently, reference to unquoted or unlisted shares throughout this guide includes AIM and Aquis listed shares.) Since 2013, AIM shares have been eligible for inclusion within an ISA, and by investing in eligible shares it is possible to have an ISA that is outside of the charge to IHT. BR-eligible shares purchased on an unrecognised exchange are generally AIM listed, almost to the exclusion of Aquis.

4 Where shares are held, or there is a business or an interest in a business, the main activity must not be non-qualifying. So, if a company has an eligible activity as its main activity (more than 50% of turnover) but is also involved in a non-qualifying activity as a minor part of its business (less than 50% of turnover), the entire shareholding should still qualify for BR.

5 Assets (including cash) within the business will be considered **"excepted assets"** and will not qualify for BR unless they are either: used wholly or mainly by the business concerned throughout the two years preceding the transfer to the beneficiary; or required at the time of the transfer for future use for the purposes of the business. However, unlike the 50% condition for the business's activities, relief is still granted on the remainder of the business's assets. Simply holding cash in reserve to guard against a downturn is not considered a specific commercial justification.

6 Investors must not use debt to purchase BR qualifying investments: If they do, the liability will be added back into the investor's estate.

7 A BR investment retains the ownership of the asset in the hands of the investor and it remains within their estate. This may provide advantages when an LPA is in place.

8 If the business is subject to a binding contract for sale, then it will not qualify for BR. However, there is an exception to this rule where there is a properly drafted cross-option arrangement in place that enables a business to pass into the hands of surviving shareholders, which should be standard practice in many small businesses.

1.3

Recent Developments

Developments in the IHT landscape that impact BR and the most recent developments to take note of are discussed in the following sections.

Pandemic Push

DRIVERS FOR ESTATE PLANNING

Covid-19 has been a sharp reminder of our own mortality, and created new drivers for client interest in estate planning and Business Relief. Demand for wills jumped by almost a third when the pandemic hit the UK and tax-free pension withdrawals leapt by 55% between September 2019 and April 2020. (Association of British Insurers).

PENSION IMPACTS

Many withdrew from their pension pots with furloughed workers only receiving 80% of their standard wage and small business owners seeking cash while lockdowns temporarily strangled their trade. This is potentially problematic as accessing a pension pot makes replenishing it ten times more difficult because the annual pension allowance drops from £40,000 to £4,000. The March 2021 Budget also saw the Chancellor freeze the Pensions Lifetime Allowance (LTA) at £1,073,100 until April 2026. Both limitations result in restricting how much people can put into their pensions.

BR is potentially a good option for those looking for an alternative later life savings mechanism with growth options in a home that, like a pension, doesn't ordinarily attract IHT. Although, the risk profile of unlisted shares does not match that of standard pension investments.

Having said that, the raising of the 'adjusted net income' threshold in 2020 may have reduced the number of high earners who previously used BR to IHT-efficiently complement their reduced allowable annual pension contributions.

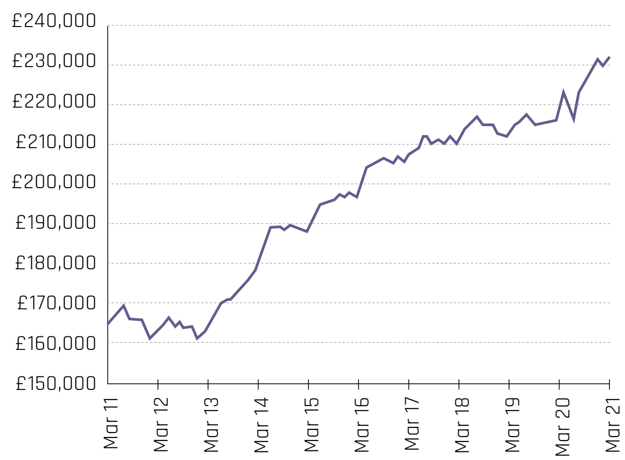
The threshold rose from £150,000 to £240,000 before any taper is applied to the annual pensions allowance.

HOUSING MARKET BOOSTS

One of the major components of rising estate values and IHT receipts is house price growth. Pent up demand in the housing market resulting from lockdowns and government measures including temporary stamp duty cuts and the mortgage guarantee scheme, created significant upward pressure on prices. In fact, in April 2021, NAEA Propertymark reported there were 16 house hunters for every property on the market.

While government interventions have undoubtedly had a role to play, even as they were winding down in August 2021, Nationwide reported the second largest month-on-month rise in house prices in 15 years, up by 2.1%. Ongoing factors such as pandemic-related changing home preferences, low interest rates and a shortage of homes to sell continue to impact the market.

AVERAGE UK HOUSE PRICE



SOURCE:NATIONWIDE

COVID COSTS AND TAX CHANGES

While Boris Johnson was elected as Prime Minister on the back of a manifesto promising a low-tax economy, the impact of measures designed to prop up businesses and staff during Covid-related lockdowns and restrictions has been massive: From April 2020 to 2021, the government borrowed £299 billion, the highest figure since records began in 1946. From April 2021 to 2022, the BBC has estimated that the figure could still be more than £200 billion.

Consequently, attention has been directed much more closely to policies that will facilitate repaying the debt. Both increasing growth and tax raises have been viewed as methods to achieve this.

As an incentive for growth funding, BR could be well-placed within this context, but as a tax relief that cuts government IHT receipts, it may be less secure. However, bearing in mind the relatively tiny cost of BR to the Exchequer - just £815 million in 2019/20 - and past Conservative government's praise for BR as a driver of growth, there is a strong argument that BR will remain untouched.

LINGERING HEALTH EFFECTS

Research into the longer-term impacts of Covid is in its early stages, but there is already evidence to suggest that it may lead to increased levels of dementia. With close to 400,000 people in the UK suffering from long-Covid in June 2021 and research suggesting 93% of over-55s have made no specific provision for the cost of care, which, according to the Alzheimer's Society, can be up to £500,000 for a dementia sufferer, access to funds in later life becomes an important feature of any later life planning

Residence Nil Rate Band

The Residence Nil Rate Band (RNRB) was introduced for the 2017/18 tax year, offering couples an additional £200,00 of IHT relief on their private residence (subject to certain conditions), increasing to £350,000 in 2020/21.

In 2017-18, 20,200 estates used the RNRB threshold, and £3.1 billion of chargeable estate value was sheltered from an IHT charge as a result. But the drop in IHT take that filtered through to 2019/20 was just £200 million, suggesting that RNRB was already lagging behind house price inflation at its inception.

In 2018/2019, the RNRB went up to £250,000 per couple and despite an additional £0.5 billion of chargeable estate value being sheltered from an IHT charge by a RNRB claim, overall IHT receipts actually rose.

The market remains strong. Add to this the decision to hold both Nil Rate Band (NRB) and the RNRB at 20/21 levels until April 2026, and a rise in the number of estates exceeding the NRB and RNRB looks inevitable given the current drivers of estate values. Notable among these are the strong property market, inflationary pressures and wage growth.

Spring and Autumn budgets, 2021

2021 saw two budgets - one in March and one in October. There were no direct changes to Business Relief in either budget. But both included measures to assist companies of all sizes in the aftermath of the economic woes inflicted by Covid.

In March, the government was keen to create conditions to allow all businesses to flourish, taking positive steps for the short term, including a new Recovery Loan Scheme and introducing the Super Deduction, a 130% upfront capital allowances super-deduction for investment in plant and machinery until March 2023.

Nevertheless, the Chancellor made it very clear that, “We need an investment-led recovery."

While no changes were made to BR, there were changes that are likely to lead to greater IHT liabilities and therefore to potential BR usage.

Spring Budget Tax rate and allowances changes

- The Pensions Lifetime Allowance will remain at the 2020/21 level of £1,073,100 until April 2026 instead of increasing by CPI annually over that period.
- Inheritance tax NRB and RNRB will also remain at 2020/21 levels until April 2026. They were due to increase annually at the CPI rate. The NRB has not been increased for over a decade and will continue at £325,000 per person. The RNRB will continue at £175,000 per person. The RNRB taper will continue to start at £2 million. Individuals can continue to pass on up to £500,000 (where full RNRB and NRB applies) without an inheritance tax liability. For couples, this doubles to £1 million.

Corporation tax was also targeted, with an increase from the current 19% to 25% from April 2023. However, companies with profits of less than £50,000 will benefit from a Small Profit Rate of 19%. A tapered rate will also be introduced for profits above £50,000, so that only businesses with profits of £250,000 or greater will be taxed at the full 25% rate.

In the October budget, Chancellor Sunak stated, "Now is not the time to remove tax breaks on investment.” But spending was certainly on the agenda, with boosts to companies through business rate cuts, including a minimum 50% reduction in 2022/23 for firms in the retail, hospitality and leisure sectors, and a new ‘business rates improvement relief’ from 2023 allowing all businesses to make property improvements – and, for 12 months, pay no extra business rates. If those improvements involve adopting green technology like solar panels, further reductions will be available.

Other Autumn budget announcements saw the freezing of the business rates multiplier for a further year and the extension of the £1 million Annual Investment Allowance until March 2023 which was dubbed a move to provide more upfront support to help businesses across the UK to invest and grow.

These changes could impact the profits of BR investee companies and therefore the returns they are able to provide to investors.

Other measures announced in October that may effect the BR market are the government's new ambition for all of the UK’s electricity to be from low carbon sources by 2035, and £30 billion for the Net Zero Strategy to create the new, green industries of the future. This is a sector in which Business Relief investment managers have a significant interest. Consequently, any driver of green energy alternatives is also potentially good for Business Relief investments and investors.

A raft of investments into the housing market, totalling almost £13.5 billion, will also be made following the Autumn budget. Yet, some in the housing industry are sceptical that this will address the housing shortage, leaving demand continuing to outstrip supply and an ongoing lack of housing at affordable prices. This means competition and prices are likely to remain high. Since housing is one of the biggest drivers of estate values, Business Relief is likely to continue to attract investors.

There was also a clarification in the Spring budget of an anti-avoidance rule that applies to gift hold-over relief, which is sometimes used in conjunction with BR. That rule disapplies the entitlement to relief where a transferee company is controlled by a person who is not resident in the UK and is connected with the person making the disposal.

From 6 April 2021, the new measure clarifies that rule by ensuring that it applies when the non-UK resident person gifting the asset also controls the recipient company.

TAX DAY

Documents published in March 2021 as part of 'Tax Day' included the confirmation that there would be no major changes to trusts following various consultations and the government's response to the Office of Tax Simplification's (OTS) first report on Inheritance Tax, published in November 2018 and largely forgotten. The first report's recommendations, pertaining to simplifying the administration of IHT through the amendment of reporting requirements and digitisation, were largely accepted and will be implemented.

In addition, five recommendations from the second OTS report on IHT, published in July 2019 were accepted by Lucy Frazer, Financial Secretary to the Treasury in a letter to the OTS published in November 2021.

They were largely administrative changes and did not include any of those relating to the simplification of lifetime gift exemptions and changing the scope of reliefs such as Business Relief.

Notably, the letter states, "You acknowledged that some of these recommendations would have impacts on the Exchequer."

The outcome is that the government has decided not to proceed with any changes at the moment, although it will bear in mind the, "very valuable work" of the OTS if it considers reform of IHT in the future.

HMRC Judgements Update

When it comes to land-based businesses and BR, HMRC makes good use of s.105(3) of the Inheritance Tax Act 1984. This denies BR to businesses that 'consist wholly or mainly of dealing in securities, stocks or shares, land or buildings or making or holding investments'.

COX VS HMRC [2020] TC07919

In November 2020 HMRC won the latest case resulting in denial of BR for a holiday let business. It centred on the provision of additional services in a similar vein to previous cases Graham V HMRC (2018) and HMRC v Vigne (2017) (both discussed in the second edition of this guide).

HMRC initially refused a Business Relief claim on the three flats within Crail House that were used exclusively for holiday accommodation with a fourth being the owner's principle private residence.

The Executors appealed to the First Tier Tribunal (FTT) on the basis that the owner provided additional services to guests over and above the simple letting of the properties. The non-investment activities cited included the provision of books, DVDs, information leaflets, use of tennis or badminton racquets, crab lines, frisbees or buckets and spades and free attendance of the Crail Festival provided for guests staying in the property.

The judgement in favour of HMRC found, however, there was no evidence that the extra services such as dog-sitting, childminding, transport, breakfast and supper were rendered to guests with any regularity and that these non-investment activities were not significant enough and certainly not as seen in the case of Graham v HMRC in which the FTT found in favour of Graham.

LIKELY CHANGES TO MIFID II

10% DROP NOTIFICATION

In July 2021, in a memorandum to parliament, the government revoked the requirement for investment portfolio managers to notify professional and wholesale clients of any drop in value of their portfolio by 10% or more no later than the end of that business day. Instead, such investors and investment managers will be allowed to agree what reporting is appropriate based on their specific circumstances.

For retail clients, a consultation has been promised. The rule, which is set out in COBS 16A.4.3 is currently suspended until the end of 2022 (having been extended for a further 12 months in December 2021, whilst Her Majesty's Treasury and/or FCA policy work on the requirement's future is concluded) where investment managers have notified retail clients:

- At least once of a portfolio value drop of at least 10%,
- That they may not receive another such notification in the current reporting period,
- Where they can view general updates on market conditions, and
- How to check their portfolio value.

PRIIPS CHANGES TO KIDS

Although not specifically mentioned in the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation, some BR estate planning services are classified as PRIIPs.

More Info

For more information on Graham V HMRC (2018) and HMRC v Vigne (2017), please see our BR Guide, Second edition. https://bit.ly/estate-planning-2nd-edition

This means that the manager must issue a Key Information Document (KID), designed to help investors to better understand and compare the key features, risk, rewards and costs of different PRIIPs.

However, there have been significant concerns that the methodology for calculating the performance scenarios required by PRIIPs produces misleading performance scenarios across a wide range of products. As a result, the 2021 Finance Act enacted in April 2021, includes legislation allowing the replacement of the requirement for specific performance scenarios with the more general requirement for "appropriate information on performance", and empowered the FCA to clarify what performance information must be provided.

In July 2021 the FCA opened a consultation to address the areas of PRIIPs "that propose most harm to consumers." One of the proposals was to remove performance scenarios from KIDs because of the complexity for producing an obligatory, single performance calculation that works well to provide reasonable potential return scenarios for the wide range of products governed by PRIIPs. Instead, the suggestion is for a narrative explanation of the factors likely to affect future performance, how the PRIIP is likely to compare in terms of performance and volatility against the most relevant index or benchmark and an explanation of a favourable, negative, or worst scenario for the investment performance.

To eradicate the issues related to inappropriate risk scores, the FCA proposed the introduction of a requirement for PRIIPs manufacturers to upgrade their product's Summary Risk Indicator (SRI) score if they consider that the risk rating produced by the methodology is too low, with relevant reporting to the regulator to explain any increase.

Subject to the feedback to this consultation, the FCA plans to make final rules on scope, issue guidance and amend the PRIIPs rules in the first quarter of 2022.

FCA finalised guidance fg21/1: guidance for firms on the fair treatment of vulnerable customers

The second edition of this guide included an in-depth review of Working with Vulnerable Clients. In February 2021, after two consultations, the FCA published its Finalised Guidance on this area.

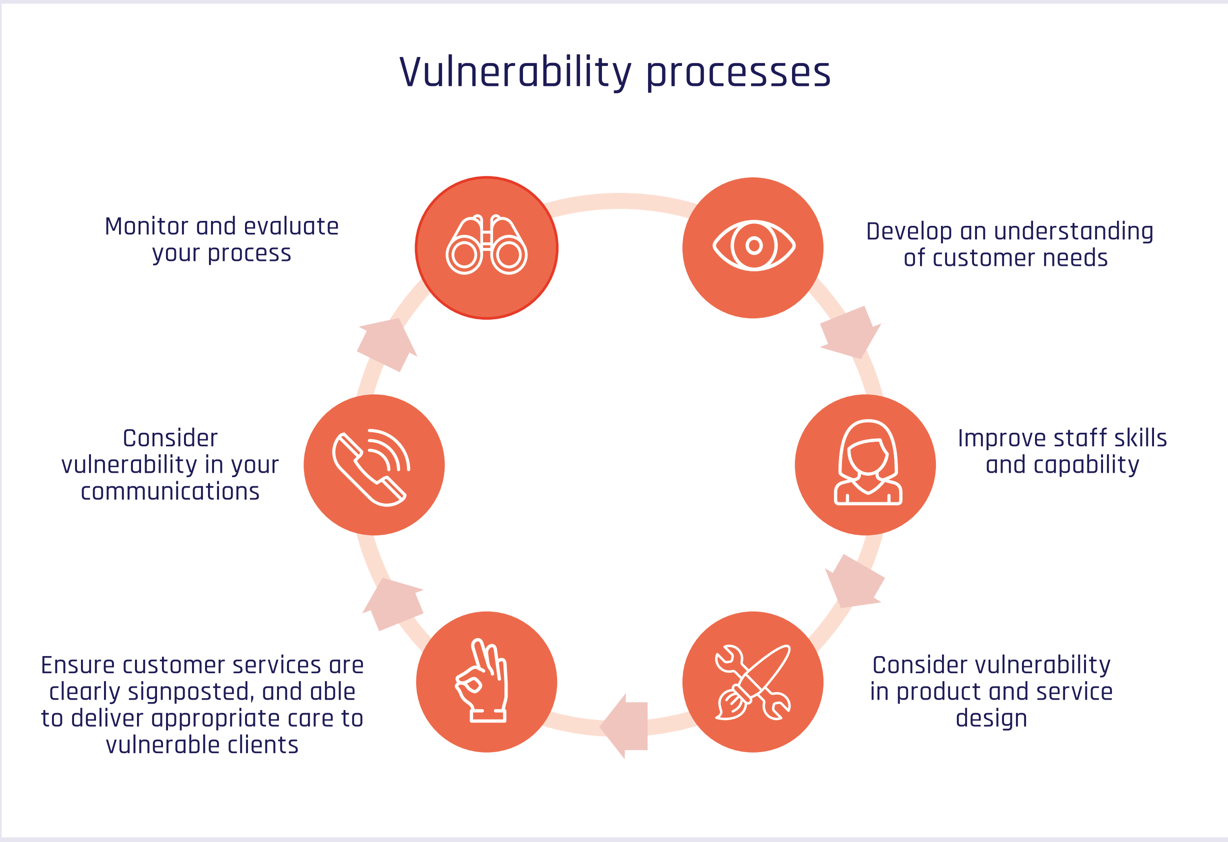
FCA definition of a **vulnerable consumer:**

"someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care".

The regulator's research has found that the fair treatment of vulnerable consumers is not yet being consistently embedded by all firms in their culture.

The importance of this duty of care has been compounded by the rise of Covid. Between the regulator's February and October 2020 Financial Lives Survey, the number of adults in the UK with characteristics of vulnerability such as poor health, low financial resilience or recent negative life events, grew by 15% - from 24 million to 27.7 million. That is 53% of UK adults. While not all of these will be vulnerable, "they may be more likely to have additional or different needs which, if not met by firms, could limit their ability to make decisions or to represent their own interests."

The finalised guidance describes vulnerability as a spectrum of risk, with some at higher risk than others. It also sets out considerations in relation to recording customer information and GDPR, based on input from the Information Commissioner's Office (ICO).



Although the guidance offers case studies and examples, there is no checklist of required actions and firms will need to use their judgement to decide precisely what the Guidance means for them and their statutory duty of complying with the FCA' Principles (in particular, principles 2, 3, 6, 7 and 9).

Updated Guidance Summary:

- Firms should understand the nature and scale of characteristics of vulnerability present in their target market and customer base.

- Firms should understand the impact of vulnerability on the needs of consumers in their target market and customer base, by asking themselves what types of harm or disadvantage their customers may be vulnerable to, and how this might affect the consumer experience and outcomes.

- Firms should embed the fair treatment of vulnerable consumers across the workforce. All relevant staff should understand how their role impacts the fair treatment of vulnerable consumers.

- Firms should ensure frontline staff have the necessary skills and capability to recognise and respond to a range of characteristics of vulnerability.

- Firms should offer practical and emotional support to frontline staff dealing with vulnerable consumers.

- Firms should consider the potential positive and negative impacts of a product or service on vulnerable consumers and design products and services to avoid potential negative impacts.

- Firms should take vulnerable consumers into account at all stages of the product and service design process, including idea generation, development, testing, launch and review, to ensure products and services meet their needs.

- Firms should set up systems and processes in ways that will support and enable vulnerable consumers to disclose their needs.

- Firms should deliver appropriate customer service that responds flexibly to the needs of vulnerable consumers.

- Firms should tell consumers about the support available to them including relevant options for third party representation and specialist support services.

- Firms should put in place systems and processes that support the delivery of good customer service, including systems to note and retrieve information about a customer's needs.

- Firms should ensure all communications and information about products and services are presented in ways that are understandable for these consumers.

- Firms should consider how they communicate with vulnerable consumers, taking account of their needs. Where possible, firms should offer multiple channels so vulnerable consumers have a choice.

- Firms should implement appropriate processes to evaluate where they have not met the needs of vulnerable consumers, so that they can make improvements.

- Firms should produce and regularly review management information, appropriate to the nature of their business, regarding the outcomes they are delivering for vulnerable consumers.

More Info

For more information on working with vulnerable clients, please see our BR Guide, Second edition. *https://bit.ly/estate-planning-2nd-edition*

ESG/Impact investing

Covid-19 has accelerated the repositioning of Environmental, Social and Governance factors and the responsibilities they entail at the forefront of financial services. Shareholders have used their power to urge company bosses to focus on employee well-being and on ensuring that suppliers were paid during global lockdowns and attention has also turned to not just the well-being of individuals, but that of the planet. And the speedy implementation of policies to fight Covid-19 has demonstrated that real change can happen much more quickly than previously thought.

Demand is strong with 2020 seeing an average of almost £1 billion a month invested into responsible investment funds. Assets under management (AUM) of funds applying environmental, social and governance criteria (ESG), grew by 66% in that period versus 7% across funds overall. (Investment Association)

Government has also taken up the mantle of driving green and sustainable development in all areas, including in relation to those working in investments. In the Build Back Better publication produced by the government as part of the March 2021 Budget documentation, it is clear that those in financial services will need to take on board at least some aspects of ESG, and it would seem commercially unwise to ignore consumer demand.

Build Back Better states that, "The UK Government intends to fully implement a 'Green Taxonomy' to provide a common standard for measuring firms' environmental impact and will require firms to disclose the climate risks they face in line with the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD)."

In fact, for some firms, this became a requirement in December 2020, when the FCA published its policy statement, PS20/17, Proposals 'to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations'. The statement requires better climate-related financial disclosures for UK premium listed commercial companies. For accounting periods beginning on or after 1 January 2021, they (including premium-listed advice firms such as Quilter, Close Brothers and Charles Stanley) are required to include a statement in their annual financial report which sets out whether their disclosures are consistent with the recommendations of the Taskforce on Climate-related Financial Disclosures, and to explain if they have not done so.

Among other things, the FCA expects these new rules will protect consumers by improving the information financial services firms use both to design the climate-related financial products that consumers demand, and to make more reliable disclosures to clients and consumers. It also expects the rules to support competition in the interest of consumers by enabling financial services firms to provide clients and consumers with better information to assess which products meet their needs.

In December 2021, following the publication of consultation paper CP21/18, 'Enhancing climate-related disclosures by standard listed companies' the FCA extended the application of the existing Listing Rule to a wider scope of listed issuers. This is outlined in PS21/23 and applies to issuers of standard listed shares – both equity shares, and shares other than equity shares – and standard listed issuers of Global Depositary Receipts representing equity shares for accounting periods beginning on or after 1 January 2022.

Since AIM is classified as a secondary market, PS21/23 does not apply to it. Nevertheless, In early 2022, the Department for Business, Energy and Industrial Strategy (BEIS) is implementing TCFD-aligned disclosures for UK-incorporated companies with securities admitted to the Alternative Investment Market (AIM) with over 500 employees. for accounting periods beginning on or after 6 April 2022.

> ***Investors and businesses must have the information they need to understand the full range of environmental risks they face and create. That information should be a key component of every investment decision and the strategy of every business.***
>
> **CHANCELLOR RISHI SUNAK**

The FCA also announced in its June 2021 Consultation paper CP21/17, 'Enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers', that it is, "introducing a new 'Environmental, Social and Governance (ESG) Sourcebook' in the FCA Handbook to set out our proposed rules and guidance... we anticipate that the ESG Sourcebook will expand over time to include new rules and guidance on other climate related and wider ESG topics."

Again, in December 2021, the final policy was published in PS21/24 and it applies to, among others, investment portfolio managers and authorised UK Alternative investment fund managers. The new rules in it apply to asset managers running in excess of £5 billion in client assets. This is because, "the incremental costs of implementing our proposals would potentially be high, as a proportion of the firms' assets under management or administration. This could lead to the unintended outcome that firms increase fees to meet the higher costs, passing these on to clients, and potentially undermining competition in the interests of consumers."

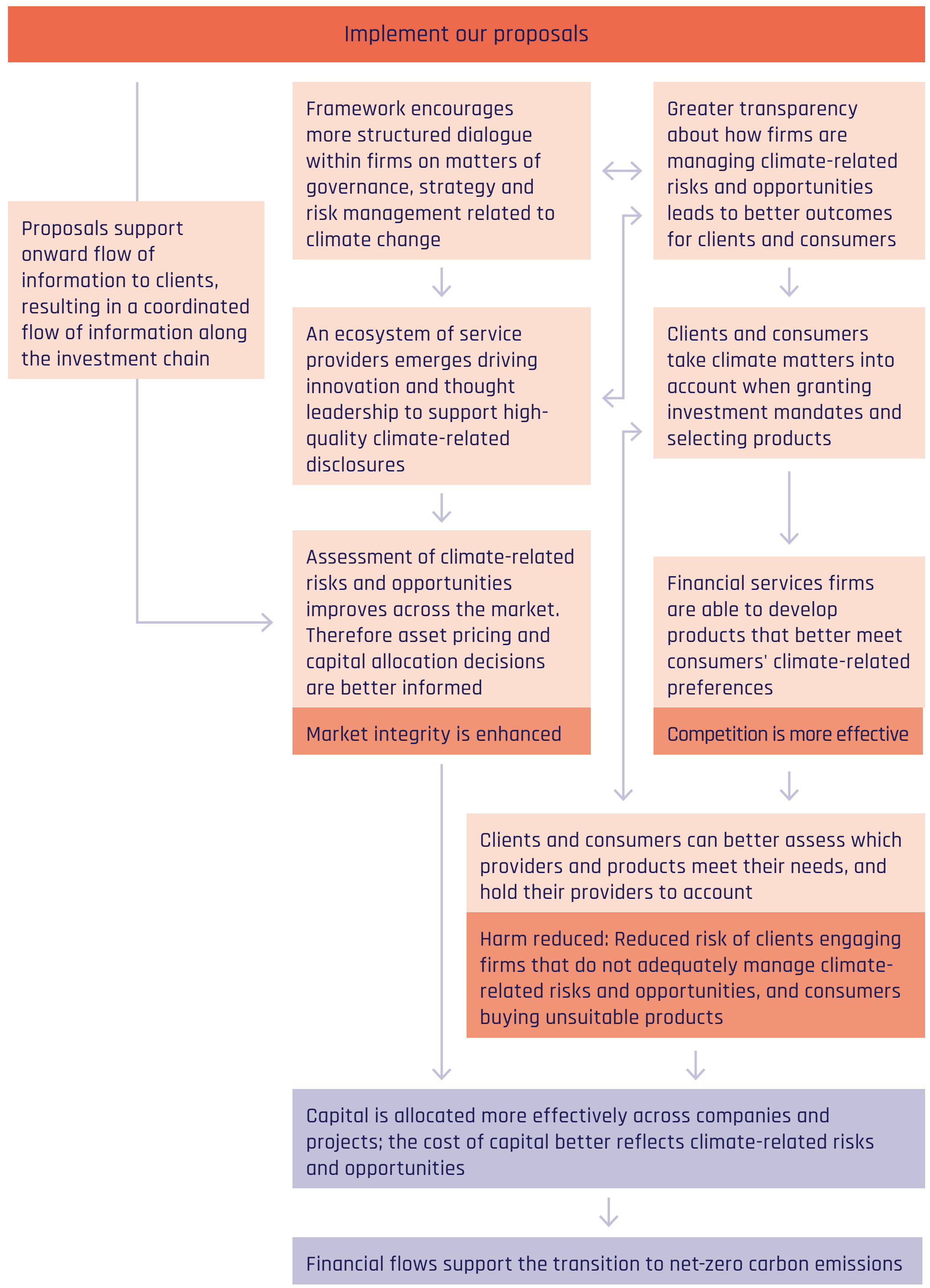
In addition, discretionary fund managers would only be required to make the relevant product-level disclosures to clients at a single reference point consistent with public disclosures, or at a date mutually agreed between the client and the firm. The FCA's reasoning here is that, for some client relationships, public disclosures are not appropriate.

Following are the disclosure requirements, applicable to 98% of AUM in the UK market and assets held by UK residents. The £12.1 trillion of assets are managed by UK firms with less than £5 billion in assets relating to relevant activity:

- Publish an annual TCFD report on how they take climate-related risks and opportunities into account in managing or administering investments on behalf of clients and consumers.
- Produce a baseline set of disclosures regarding their products and portfolios, including a core set of metrics, on an annual basis. The metrics would include the portfolio's carbon footprint, greenhouse gas emissions and weighted average carbon intensity. Depending on the type of firm and/or product or portfolio, these disclosures would either be published or made available on request to certain eligible institutional clients.
- Explain any differences in approach to risk management for specific products or asset classes and reveal how they apply climate-related scenario analysis to their decision making. If they do not have any firm-level climate-related targets, they would have to explain why not.
- A firm headquartered in, or operating in, a country that has made a commitment to a net zero economy is encouraged to consider the extent to which it has considered that commitment in developing and disclosing its transition plan. If it has not done so, it should explain why.
- Unlike the relevant listed issuers, TCFD-aligned disclosure rules are mandatory for the aforementioned asset managers and asset owners from January 2022. This is despite the FCA's acknowledgement that there would be gaps in the data needed to calculate some of the metrics for disclosure – at least initially. This is because of what it calls, the "need to 'get started' and thereby encourage industry efforts to improve both data and methodologies. Consequently, the regulator, "will not require firms to disclose information (e.g. in relation to metrics or quantitative scenario analysis or examples) if data gaps or methodological challenges cannot be addressed through the use of proxies and assumptions, or if to do so would result in disclosures that are misleading."

The regulator's rationale is, "By introducing our proposals, we intend to reduce potential harm such as clients engaging firms that do not adequately manage climate-related risks and opportunities, and consumers buying unsuitable products."

Potential Benefits of implementation of CP21/17 proposals



SOURCE: FCA CONSULTATION PAPER CP21/17, JUNE 2021

> *Firms increasingly face both ‘physical’ risks as the climate changes around us and ‘transition’ risks from the move to a net-zero carbon economy. If poorly managed, these risks could be the source of consumer harm and potentially a future financial crisis stemming from financial losses and sudden adjustments in asset values.*
>
> **THE CLIMATE FINANCIAL RISK FORUM GUIDE, JUNE 2020**

In its ‘Greening Finance: A Roadmap to Sustainable Investing’ policy paper of October 2021, the treasury briefly addressed sustainability-related requirements for financial advisers. It is working on these with the FCA with the aim of ensuring advisers, "take sustainability matters into account in their investment advice and understand investors' sustainability preferences to ensure suitability of advice". The target timeline for any proposals was not specified.

The paper made it clear that asset managers/owners and investment products will be required to substantiate ESG claims they make in a way that is comparable between products and is accessible to clients and consumers.

They will also need to disclose whether and how they take ESG-related matters into account in their governance arrangements, as well as in their investment policies and strategies. What's more, the UK's Sustainability Disclosure Requirements (SDR) will require sustainable investments to satisfy disclosure against minimum safeguards and metrics relating to basic good business practice.

While regulation is not in force, the government and regulators encourage disclosure against established voluntary standards. The same applies to transition plans to reach net zero.

The government also expects the pensions and investment sectors to use the information generated by SDR to deliver on their responsibilities as stewards of capital across all asset classes and markets. That means integrating ESG considerations into investment decision-making, monitoring, voting practices and accountability, including by collaborating with other investors.

For clarity of terms, definitions and better understanding of companies’ environmental impact, the government is developing the UK Green Taxonomy. Reporting against the Taxonomy will form part of SDR and certain companies will be required to disclose which proportion of their activities are Taxonomy-aligned.

The FCA will also require certain investment products to display a label reflecting their sustainability characteristics. ‘Sustainability Disclosure Requirements (SDR) and investment labels Discussion Paper (DP21/4)’, published by the FCA in November 2021, gave industry stakeholders the chance to submit their views on the proposed new regulatory framework until January 2022.

It is worth remembering that ESG also encompasses Social and Governance issues and that both regulators and clients are taking an active interest in them. Moreover, they are not just related to the investments that firms may offer or the investment recommendations advisers may make.

The internal workings of both investment management and advisory firms are coming under increasing scrutiny in terms of issues such as how staff are treated, what levels of diversity are present, how seriously sustainable practices are taken - for example, is there a digital first strategy in place to eliminate unnecessary paper use - and how company culture embeds these types of values into all aspects of its operations.

The FCA's Business Plan for 2020/21 includes a continued focus on culture and it is clear that it views culture as going beyond the purely technical and financial. This is evidenced by its January 2020 ‘dear CEO letter’ on non-financial misconduct, in which it stated, "How a firm handles non-financial misconduct throughout the organisation, including discrimination, harassment, victimisation and bullying, is indicative of a firm’s culture. We view both lack of diversity and inclusion, and non-financial misconduct as obstacles to creating an environment in which it is safe to speak up, the best talent is retained, the best business choices are made, and the best risk decisions are taken."

Since there are BR offers in the market that make reference to their ESG credentials, it is therefore important for advisers to carefully review them, not only to ensure they meet the requirements of their clients, but also to understand how their investment managers stay within the current and likely upcoming regulatory requirements.

ESG considerations

ENVIRONMENTAL

- Renewable fuels
- Greenhouse gas (GHG) emissions
- Energy efficiency
- Climate risk
- Water management
- Recycling processes
- Emergency preparedness

SOCIAL

- Health and safety
- Working conditions
- Employee benefits
- Diversity and inclusion
- Human rights
- Impact on local communities

GOVERNANCE

- Ethical standards
- Board diversity and governance
- Stakeholder engagement
- Shareholder rights
- Pay for performance

SOURCE: WORLD ECONOMIC FORUM

Why Choose BR?

IHT SOLUTIONS COMPARISON	BR	Gifts / PETs (Potentially Exempt Transfers)	Trust
TIMEFRAME	2 years from the acquisition date of the shares*	Tapers - but 7 years for full relief	7 years
IMPLEMENTATION AND ONGOING ADMINISTRATION	Relatively simple	Specialist advice is highly recommended	Requires relatively complex legal structures
COSTS	Varies, averages up to 3% initial fee and 1 - 3% ongoing AMC	Low, but there will be a charge for the advice	High
INVESTMENT RISK	Medium to high depending on underlying assets/ investment sector	None	Depends on how assets are invested
LIQUIDITY	Between <30 days to >3 months in normal market conditions, depending on the service	None - access and control is lost	No access, but some control depending on the legal structure
POTENTIAL RATE OF RELIEF FROM IHT	50% or 100% (subject to minimum holding period)	100% (after 7 years)	Can be 100%, depending on the structure (after 7 years)

* However, if the company is not trading when the shares are issued, the period ends on the second anniversary of the commencement of the trade for BR qualification.

2.1 BR and Other Estate Planning Solutions

Of course, there are other estate planning solutions which can be used independently and in conjunction with BR.

Using multiple estate planning solutions may be necessary to maximise low cost and low risk options such as gifting. Using a single strategy also runs the risk of that strategy failing and the client not achieving a reduction in the potential IHT liability. Therefore, diversifying between strategies such as gifts, trusts and BR, and diversifying between providers within these strategies, is the optimal goal. The case studies in sections 5 and 6 of this guide provides useful examples of when and how BR can be used with other IHT planning methods.

IHT SOLUTIONS COMPARISON	Life Assurance	Pensions	Charitable Giving
TIMEFRAME	As soon as the policy is in place	As soon as funds are inside the pension as long as annual and lifetime limits aren't breached	For lifetime gift, as soon as gift is made. For other gifts, on death as long as the gift is in the will
IMPLEMENTATION AND ONGOING ADMINISTRATION	Depends on age and health status - can be restrictive	Depends on pension arrangements. Specialist advice is highly recommended	Simple, but estate value/ will must be correct
COSTS	Monthly premium or lump sum - will vary depending on sum assured, age & health	Varies, around 0.85% ongoing AMC + transaction costs and taxes if the pension fund buys & sells + cost of advice	Varies, professional valuation of estate and ongoing will updates
INVESTMENT RISK	None	Depends on how the assets are invested	None
LIQUIDITY	Can cancel the policy, subject to costs	Big tax penalties to access funds when under 55	Can rewrite will at any time
POTENTIAL RATE OF RELIEF FROM IHT	No relief - just pays the bill with sum assured	Usually 100% if the deceased is under 75. For over 75s, up to 55% income tax is payable, depending on the size of pension pot	IHT on estate reduced by 10% (to 36%) if 10% of estate is left to charity

2.3

Benefits and Risks

KEY BENEFITS

Speed

Unlike gifts, BR qualifying investments are 100% outside of the charge to IHT after a two-year holding period. After that, investors can dispose of the BR qualifying shares and if they reinvest the proceeds in BR qualifying shares within three years, they immediately qualify for the relief, without having to restart the two-year qualifying period.

Access

Subject to liquidity, BR investors can exit their investment at any time to access their funds.

Growth

The estate planning services offered by investment managers target investment growth typically from 2% to 5% p.a.

Simplicity

As an investment, there are no medical underwriting or complex legal structures required. BR is also an option where an LPA is in place: attorneys need the approval of the Court of Protection to make gifts, but BR is simply an investment, which continues to be held by the subject of the LPA.

The risk must be considered in the context of:

- *Doing nothing: the value of the estate that exceeds the NRB and RNRB allowances is guaranteed to be taxed at 40%*.*
- *The advantages of BR against the risks of other estate planning solutions. They may have less investment risk or tax risk attached to them, but that could come at the price of lower levels of access, flexibility and growth.*

The longer holding period required also means that other estate planning solutions have a higher risk of not achieving IHT mitigation on death.

**Assuming no change in future legislation or rate of IHT.*

KEY RISKS

Investment Risk

Investments into unquoted small and medium-sized enterprises are always going to be deemed high risk as, statistically speaking, smaller companies fail more often than larger, more established companies. These risks can be offset, to some extent, by skilful stock selection and sufficient diversification, by identifying project based opportunities (where a company is set up to complete a specific project, for example a solar farm or a hotel) where outcomes are less uncertain, by investing in opportunities where tangible assets can provide some degree of capital protection, or by a combination of all three. Where suitable, investors can also access insurance to cover a loss in value or a charge to IHT if an investor dies before the assets qualify for BR.

Liquidity

Even though ongoing access to funds is one of the advantages BR has over other estate planning options, liquidity can be limited due to the nature of the underlying assets. There is no large-scale active secondary market in unquoted shares and managers therefore achieve liquidity by matching inflows and outflows (matched bargain), selling assets, a share buyback, or by retaining a cash buffer as part of the service. Although managers often aim to facilitate withdrawals within weeks, this is not guaranteed, particularly in the event of a downturn or any event which prompts a high number of redemptions. AIM listed shares offer more liquidity, but some holdings may still take some time to liquidate and may have to be sold at a discount in order to achieve faster liquidity. Finally, the two-year qualifying period imposes an investment horizon of at least two years before withdrawals are advisable.

Tax Risk

There are four principal scenarios where relief might be lost: a qualifying investee company changes its activities so that it is undertaking activities that are "wholly or mainly" non-qualifying for the relief (dealing in securities, stocks or shares, land or buildings, making or holding investments), the company lists on a recognised exchange, the government changes the rules, or the investor has either not owned qualifying assets for the minimum holding period or was not holding the assets at the date of death or time of chargeable lifetime transfer. However, the ownership test is treated as satisfied if the property replaced other business property eligible for relief, provided that the combined period of ownership is at least two years out of the preceding five years.

Under the BR Bonnet

In general, estate planning services available for personal client investment into BR services can be broadly split between AIM and non AIM portfolios (those investing in entirely unlisted/unquoted assets). Investors must have ownership of the underlying assets: collective structures would not qualify for BR. There are two typical structures: a discretionary managed portfolio, or an investment in a single company that undertakes the underlying trades.

Corporate BR investors are those who have their own business. They make potentially BR qualifying investments with excess funds derived from their company. Along with private investors, they can invest those funds through a variety of structures and underlying assets although business owners are likely to have additional considerations.

> ***The inheritance tax nil-rate bands will remain at existing levels until April 2026.***
>
> **SPRING BUDGET, MARCH 2021**

THE MAIN BUSINESS RELIEF INVESTMENT STRUCTURES

SRUCTURE	Non-AIM BR: Discretionary Investment Management (Estate planning services)	AIM BR: Discretionary Investment Management (Estate planning services)	AIM BR: AIM Discretionary ISA Portfolio	Single Company	DIY portfolio	EIS/SEIS
UNDERLYING INVESTMENTS AND HOLDING METHOD	Completely unlisted shares in BR qualifying companies. The investor will have beneficial ownership of a special purpose vehicle (SPV), a holding company, shares in an unquoted company, or a share of a partnership. This is not a bespoke discretionary service.	BR qualifying shares in AIM-quoted companies.(About 50% - 70%). The investor will have beneficial ownership of shares held by a custodian, a special purpose vehicle (SPV), a holding company, shares in an unquoted company, or a share of a partnership. This is not a bespoke discretionary service.	BR qualifying shares in AIM-quoted companies. The shares are held within a stocks and shares ISA.	Likely to be an investor with close ties with a particular company with very clear insights into its activities and prospects for continued operation.	Self-selected BR-qualifying companies. Shares held directly.	Shares that are eligible for the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment (SEIS). They generally qualify for BR because the investor will hold shares in an unquoted trading company. The investor will have beneficial ownership of shares held by a custodian, a special purpose vehicle (SPV), a holding company, shares in an unquoted company, or a share of a partnership.
STRATEGY	Managers are generally looking for risk-adjusted opportunities that meet their objectives, with the potential for some growth.	Managers typically look for steady performers with sensible valuations that are self-sustaining, and can generate cash, with the potential for further growth to generate shareholder value	Managers are seeking to make the investment income, capital gains and potentially IHT-free.	It may be to harness the investor's expertise by working closely with the company to assist in its operations and performance.	Dependent on investors' time and experience of investment analysis and portfolio construction	Combining BR and EIS/SEIS tax reliefs in one investment is typically a riskier strategy than BR alone as there are additional qualification criteria over and above the BR qualification criteria, including the risk-to-capital conditions, which exclude capital preservation strategies (and demand a significant risk of loss) and requirements that the investees are smaller, younger companies.
OTHER CONSIDERATIONS	.	Some managers may have larger investment teams that meet with companies prior to and during investment, with a view to generating superior performance. Other managers may rely on a data-driven investment process.	The additional permitted subscription (APS) allows a surviving spouse to inherit a one-off additional ISA allowance equivalent to the value of the deceased's ISA at the time of death. Capital losses within an ISA (which is a tax exempt vehicle) aren't eligible to offset against other capital gains. Therefore, the use of ISAs for unquoted shares needs to be carefully considered with an investor's appetite for risk.	Lack of diversification is a clear risk.	Identifying BR qualifying companies that at least keep pace with inflation and building a diversified portfolio at reasonable cost is not a quick or easy task. And monitoring the activities of the investee needs to be ongoing. Without the necessary expertise, this would be very risky.	EIS tax reliefs include 30% income tax relief, 100% CGT relief, CGT deferral relief and loss relief. SEIS tax reliefs include 50% income tax relief, 100% CGT relief, CGT deferral relief and loss relief.

BR vs EIS and SEIS qualification criteria

	BR	EIS	SEIS
HOLDING PERIOD	2 years from the date of acquisition of shares	3 years from the date of acquisition of shares	3 years from the date of acquisition of shares
INVESTMENT LIMIT PER COMPANY	N/A	Lifetime cap: £12m* 12 month cap: £5m*	£150,000
INVESTMENT LIMIT PER INVESTOR PER YEAR	N/A	£1m*	£100,000
INVESTEE SIZE AND AGE LIMITS	N/A	Fewer than 250 full-time employees, trading for less than 7 years, gross assets under £15m immediately before shares are issued and under £16m immediately after shares are issued*	Fewer than 25 full-time employees, trading for less than 7 years, gross assets under £200,000 immediately before the shares are issued
NOT LISTED ON A RECOGNISED EXCHANGE?	Yes	Yes	Yes
NON-QUALIFYING ACTIVITIES	Dealing in shares, making/holding investments, dealing in land or buildings	Dealing in land, commodities, financial instruments, banking, insurance, leasing, hire purchase, money lending, receipt of royalties or licence fees, legal and accounting services, property development, farming, forestry, operating or managing hotels or care homes, producing coal, steel, shipbuilding, all energy generation activities	Dealing in land, commodities, financial instruments, banking, insurance, leasing, hire purchase, money lending,, receipt of royalties or licence fees, legal and accounting services, property development, farming, forestry, operating or managing hotels or care homes, producing coal, steel, shipbuilding, all energy generation activities

***The rules for knowledge-intensive companies are more generous**

More Info

For more detailed information regarding the various BR investment structures, visit the second edition of this guide at *https://bit.ly/estate-planning-2nd-edition*

DECIDING BETWEEN AIM AND NON-AIM BR INVESTMENTS

When assessing suitability, advisers should consider the various features of AIM and non-AIM BR investments and how listed assets differ from those which don't appear on an exchange. Some of those considerations are listed in the table to the right.

While the AIM market has a reputation for volatility, the recent Covid related market turbulence showed its resilience compared to the FTSE main markets. The FTSE AIM index had essentially recovered by August 2020, and was trading at record highs in the first quarter of 2021. A part of the reason for the resilience is the diversity of companies trading on AIM.

Nevertheless, AIM is the junior market and listing there is not the same as listing on the main market, and does not confer the same status, although the higher levels of scrutiny and corporate governance that would normally be associated with a listing can apply.

	Non-AIM	AIM
Investment scope	Managers have flexibility in identifying suitable investment opportunities via unquoted trading businesses	Managers are constrained to investing in qualifying businesses on AIM. There are over 800 (LSE, February 2021) firms on AIM and not all qualify for BR
Diversification	Investment is often made into one or a small number of unquoted/unlisted businesses. Diversification of trading activity and sector/asset type occurs within the investee business/es	Portfolios are typically diversified by investing into c.15-40 AIM listed companies. AIM portfolio services generally exhibit higher sector diversification than non-AIM
Manager control	Sometimes BR managers get a seat on the board of their private company investees, or they own the investee company	AIM listed companies are obliged to provide regular reporting and follow governance rules, so there should be transparency, but managers generally don't have the benefit of a seat on the board
Asset security	Non-AIM investment services often target asset owning businesses or lending businesses that take security over real assets	AIM portfolios invest into growth orientated investee companies. They do not actively target asset backed businesses
Volatility	Non-AIM services generally channel investment into businesses with stable revenue streams and valuations. Unquoted/unlisted companies are not at the mercy of market sentiment and the possibility of contagion	Shares listed on AIM are subject to market sentiment and volatility
Liquidity	As shareholdings are unlisted, liquidity will be dependent upon the ability of the manager to match buyers and sellers off market, investee company cash levels and company cash flows	The AIM market provides visibility, increasing the chances of regular trading by a wider audience of investors

Investment scope · Diversification · Manager control · Asset security · Volatility · Liquidity

3.2

Considerations for Business Owners

EXCESS CASH/INVESTMENTS: CORPORATE BR SOLUTIONS TO IMPROVE TRADING STATUS

The original intention of BR was to protect small businesses from IHT and ensure that they could be handed on to the next generation intact. Of course, this is still the case today and for many business owners their business offers the perfect shelter from IHT. Most small businesses are outside of the charge to IHT because they qualify in full for BR, subject to the qualifying criteria and the cash and assets held within the business. Nevertheless, excess funds which are not held for an identifiable future use in the business could be treated as excepted assets and excluded from the relief

Businesses cannot simply label excess funds as a buffer to protect against unexpected events without risking loss of BR qualification for some or all of those funds. However, there is an option to invest those assets into BR-qualifying shares.

BR also provides an exit solution for business owners that can preserve the IHT relief of their company via Replacement Property Relief.

BR investing and qualification requires no medical underwriting as, for example, is required to take out a life assurance policy, and costly legal structures are not necessary, unlike conventional gifts and trusts. However, the investment needs to be actually made (it cannot be in contemplation).

CORPORATE BR TRADING STRUCTURES

Subsidiaries and Partnerships

Business property that qualifies for 100% IHT relief includes shares in an unlisted company and a sole trader business or share in a partnership.

Some managers offer services that address the issue of excess non-trading assets within a business by setting up a subsidiary company that invests surplus cash into BR qualifying investments. This means that BR and, in some cases, entrepreneurs' reliefs can be reinstated but the business can still access these funds should it need to (subject to the liquidity of the underlying investments).

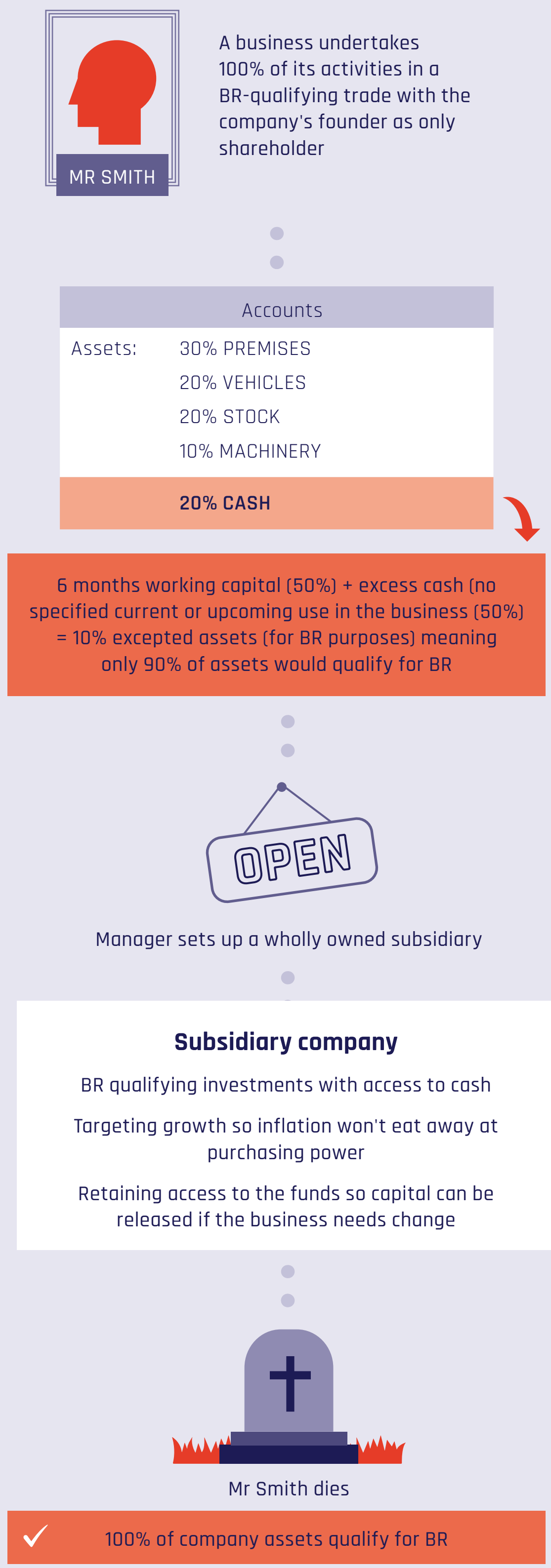
Certain providers set up a wholly owned subsidiary for the corporate client (e.g. TIME:CTC) and the subsidiary then becomes a partner in a number of underlying LLPs. Other providers operate a structure whereby the corporate client directly becomes a partner in a single LLP.

Nevertheless, if any subsidiary is not considered to be mainly trading, it would be treated in much the same way as an excepted asset. The BR would be restricted according to the market value of that investment subsidiary. Care does need to be taken where a partnership/LLP owns an interest in a trading subsidiary as, unless the partnership/LLP itself carries on a trade, no BR will be available. This is because the holding of the shares in the trading subsidiary is by itself an investment activity which does not qualify for the relief.

More Info

For a corporate BR flow chart visit the second edition of this guide at *https://bit.ly/estate-planning-2nd-edition*

Example Corporate BR Scenario



Selling businesses:
Replacement Business Property Rules

Any assets that qualify for BR, can be disposed of and replaced without the need to re-set the two-year holding period to obtain the relief.

This means that a business owner can use replacement business property to retire rather than continuing their business, with the possibility that the value of the business could decline. In this instance, the business could be sold and, provided the proceeds are reinvested in BR-qualifying assets within three years, none of the relief is lost.

Same rules for private clients

Replacement business property is also used to allow a fund manager running a BR qualifying portfolio to switch clients from one AIM or non-AIM stock to another, or clients to switch their strategy from growth to income or to change manager. It is a feature that allows investors a lot of flexibility once they have passed the two-year qualifying period.

If a person dies holding cash from the sale of a BR qualifying asset (i.e. before reinvestment) that cash does not qualify for BR.

There are some nuances to the timing of this three-year rule: it is in fact more generous than it first appears - BR will apply, providing the ownership periods total at least two years in a five-year rolling period. It is the cumulative period of ownership within the five-year window that counts, rather than an unbroken period of ownership.

More Info

For an example of replacement business property timeline and on insurance options in BR visit the second edition of this guide at *https://bit.ly/estate-planning-2nd-edition*

Thought Leadership

BUSINESS RELIEF: THE REQUIREMENTS AND TIPS TO BUSINESS OWNERS TO MAXIMISE IT

PAUL MOUNCE
PARTNER, GOSSCHALKS

What conditions need to be met to receive BR?

There are three requirements. The property must fall within several prescribed categories of property, satisfy a minimum ownership requirement, and not be caught by one of the automatic exclusions.

A business (such as a sole trader), an interest in a business (such as a partnership share), or unquoted company shares will qualify for 100% BR. Land, buildings, or machinery owned by the transferor and used wholly or mainly for the purpose of a business carried on by a company that they controlled will qualify for 50% BR.

Tip: It may be worth considering whether a property used by the business would be better being transferred into the business to increase the relief from 50% to 100% although advice should be sought regarding other tax consequences this may have.

If property qualifies it must have been owned by the transferor throughout the two-year period leading up to the transfer.

Tip: If Business property is replaced by new property that also qualifies, the ownership period can continue. Even if a business owner does not want to purchase another business there are BR products that can be considered after the sale of a business interest to maintain the ownership period.

Finally, BR will not be available if the underlying business consisted wholly or mainly of prohibited activities such as dealing in securities, stocks or shares, land, or buildings and the making and holding of investments. For example, a property development business would be likely to qualify for BR, whereas a property rental business where the owner has little involvement in the management of the business is not likely to obtain the relief.

Whether a business consists of 'wholly or mainly' prohibited activities will be a matter of fact looking at the business in the round, possibly over several years.

Tip: Holding companies, despite wholly or mainly holding or making investments, can qualify if the businesses within the structure do not fail the prohibited activities test.

Assets used for personal benefit, such as a property or a private yacht, are unlikely to qualify for BR just because they are owned by a company or are cash reserves more than what would normally be required for the company's normal business trading cycle.

It is possible for parts of a business to qualify for BP while others don't. For example, a trading business worth £2million with £500,000 of surplus cash may be able to qualify for £1.5million BR despite the cash reserve.

It is important for business owners to consider and regularly review the structure of their business to ensure that they can take advantage of and maximise BR which can prove a very important and financially beneficial Inheritance Tax planning tool.

3.4

Underlying Asset Sectors

In terms of underlying assets in estate planning services, the choice is primarily informed by several factors: the BR qualifying rules, whether the fund is listed or unlisted, and the investment objective: growth and/or income.

By and large, AIM focussed BR offers are generalist, allowing them the full scope of AIM-quoted, BR qualifying companies.

In the unlisted world, more managers are specialists. Specialists can leverage many years of relevant experience to find good value deals. They can also use their experience to help guide investee companies and they can afford to manage a smaller portfolio more closely to ensure it remains within the BR qualifying rules.

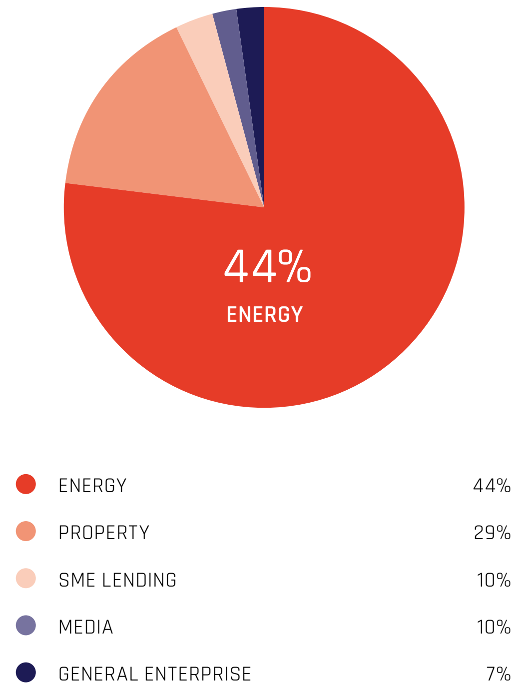
Here, managers can seek out lower risk underlying trades that provide relatively predictable return streams – typically 3-4% per annum.

It is easier for managers to have influence on unlisted investee companies, and ensure investor's interests are looked after. On the downside, it will inevitably be harder to measure the performance and volatility of unlisted shares; also, valuation will be less frequent and may be more subjective.

Regardless of sector, BR managers look for sectors with assets for which there is a demand and which generate returns, whether or not they are held within a BR wrapper.

The most popular sectors are those that benefit from defensive qualities along with non-correlated drivers.

Underlying sectors for non-AIM BR Funds



SOURCE: MICAP, MAY 2021

Currently Energy, Property, SME lending and Media are the most popular BR asset sectors.

ESG FOCUS

There has been increasing recognition of the positive role BR investments can play in funding UK companies bringing ESG-positive values to the fore. These include social housing and sustainable forestry, but more typically, they have taken the form of renewable energy investments. These provide a relatively stable, predictable return for investors, while also providing a sustainable alternative to the fossil fuels driving climate change. Recent research suggested that over half of non-generalist BR offers included at least some form of investments into renewable energy in their underlying asset targets.

ENERGY GENERATION

Energy is an essential commodity and the UK currently imports over a third of its energy needs. Reports suggest that investment needs in the UK's electricity sector will be higher over the next decade than over the last two decades, due to both capital stock upgrades and the UK's decarbonisation plans.

Renewable energy investments, with their predictable, long-term revenue streams from government incentives remain BR qualifying. The covid-19 pandemic has helped shift attitudes around the importance of ESG, shining a light on the need to take better care of the planet. Our sponsor, TIME Investments, has been making BR-qualifying renewable energy investments for a number of years, with a focus on wind and solar.

These factors are likely to drive demand in the secondary market. However, investors require an expert understanding of potential legislative changes and how they might affect the UK energy market and energy investments. Investors should also focus on the level of borrowings against the assets to assess the level of risk being undertaken in this trade.

Impact Investment Case Study

For an investment into TIME:Advance

An investment of **£200,000** Has a clean energy generation of **106 MWh per year**

Powering

34 homes per year

Or

21,153 5W light bulbs per year

The equivalent to

Offsetting **30** tonnes of carbon per year

Planting **15,141** trees per year

The footprint of **7** UK homes per year

SOURCE: TIME INVESTMENTS, 31 DECEMBER 2021

Thought Leadership

ESTATE PLANNING DURING THE PANDEMIC

KAY INGRAM
CHARTERED FINANCIAL PLANNER
INGRAM'S INSIGHTS

The impact of the pandemic on family finances has been widespread and disparate. Younger relatives face reduced income, lost businesses and jobs following lockdown. Others have seen no change in income with lower outgoings providing an opportunity to save.

All have been given a sharp reminder of their own mortality, creating a surge in demand for will writing. More families are considering how to spread family wealth.

The policy response from government to the pandemic provided unprecedented financial support, much of it on borrowed money. In the March 2021 budget the government started to address how to pay for it, most tax allowances, including inheritance tax, frozen until 2026.

This freeze comes on top of no increase in the nil rate band since 2009. With average inflation of 2.9% between 2009 and 2020, the nil rate band would need to be £445,824 to maintain its real value. This means that IHT liabilities are already £48,330 higher than in 2009 in real terms.

The introduction of the main residence nil rate band of £175,000 may offset this for those homeowners eligible, but this too is now frozen, while house values were up 10% in the year to May according to ONS. A further 5 year freeze, against a backdrop of rising asset values, would increase the number of estates paying IHT and the amounts they pay. For example, a 4% rise in asset values for estates over £500,000 will create an additional liability of £8,000 after one year and £43,330 after 5 years.

Proposals from the Office of Tax Simplification to end the exemption from capital gains tax on death may prove too tempting for a cash strapped Treasury, so those with larger estates need to plan now to preserve family wealth. Those who can afford to may make lifetime gifts, taking advantage of the Potentially Exempt Transfer and gifts from surplus income rules.

The dilemma for many moderately wealthy individuals is that they may need their money to fund later life care needs, so cannot necessarily take advantage of lifetime giving. For them Business Relief exempt assets may be a solution which reduces the mounting IHT liability, after 2 years ownership, while retaining access to those assets should they be needed later on.

Advisers have a role to play in helping clients establish their potential IHT liability and using cash flow modelling to help them assess the affordability, or not, of making lifetime gifts. One objection sometimes raised to investing in BR qualifying assets is that they involve a higher level of risk than the client can tolerate. Many of these clients may already own smaller companies as part of a collective investment, but these do not qualify for BR, whereas direct holdings do. A readjustment of asset allocation away from collectives and into directly held BR qualifying investments could resolve the rising IHT liability, while maintaining an appropriate risk profile.

3.5

Liquidity Management in BR Investments

Investors need to be holding BR-qualifying shares at death in order to benefit from the relief. So, while two years is the minimum holding period to qualify, the reality is that the investment horizon is likely to be longer. But our immediate financial needs have become more unpredictable. While BR offerings can be a solution to the vulnerability of cash to both inflation and IHT (through growth potential, the possible use of hedging and tax relief on offer), the liquidity provisions allowing access to capital invested should be carefully examined. BR services generally offer access to invested funds within a 30 days to 3 months timeframe depending upon the service. But this is a target, rather than a guarantee. Whatever the quoted withdrawal timeline, BR managers should have robust liquidity strategies in place.

TIME:ADVANCE LIQUIDITY PROVISION CASE STUDY

TIME:Advance invests in one or more portfolio companies, for example Elm Trading Ltd which operates various trades through underlying subsidiaries.

TIME:Advance has several layers of liquidity provisions aimed at facilitating its target withdrawal timeline of 14 days. Under normal market conditions, the buffer provided by the regular income streams in levels 1 to 3 (see liquidity case study opposite), has been very successful in meeting withdrawal requests, including some very sizeable ones within a two week period. However, the liquidity timeline is not guaranteed and investors should look to hold for the long term.

TIME:Advance liquidity case study

1. In the first instance, TIME seeks to meet any withdrawal request by a sale of the exiting investors' shares to incoming investors. This is a fairly typical approach for a BR investment that is reliant on investor inflows. TIME:Advance has a strong track record of fulfilling withdrawal requests within 14 days, partly due to its strong investment inflows.

2. If there are insufficient incoming investors to meet withdrawal requests, TIME will seek to facilitate an exit through the cash reserves of Elm Trading Ltd. TIME employs an active cash management approach sustained through the income generated by the businesses owned by Elm Trading. It continually monitors cash reserves and its investment criteria focuses on cash generative sectors to assist with liquidity provision. Self Storage, Property Lending, and Renewable Energy each have fairly predictable income streams.

3. Withdrawal requests (that cannot be met by a sale of the investor's shares) in excess of Elm Trading's income and cash reserves will likely be met on the maturity of one or more loans made by Property Lending, rather than a sale of assets from the other subsidiaries. Property Lending's loan terms are typically from 2.5 months to 33 months in duration, and mature at staggered intervals throughout the year. Property Lending should therefore be in a position to regularly provide a source of liquidity for TIME:Advance.

4. Many of the underlying subsidiaries directly own physical and illiquid assets. These assets could be made available for sale in the event of a significant run of redemption requests although this would likely take time to achieve.

Investment in TIME:Advance involves the issuing of shares in unquoted company(ies). There is no market for these shares and whilst we would normally expect to provide liquidity within two weeks, there is no guarantee that this will always be possible. Investors should treat an investment in TIME:Advance as medium to long term.

3.6

Transferring BR–Qualifying Assets

Transfer by way of gift: For a gift (over the value of the available NRB) to be fully exempt from IHT as a PET (Potentially Exempt Transfer), it must be transferred to the beneficiary at least seven years before the death of the donor. Technically, if the donor dies within seven years of gifting the BR investment, it is a failed PET. But, if the gift is in the form of a BR investment that has been held for at least two years by the donor, and the recipient of the gift continues to hold the BR qualifying assets until the earliest of the donor's death or seven years, the gift will benefit from 100% IHT mitigation.

Failed PETS: For the purposes of the RNRB, failed PETs are not added back into the estate for RNRB purposes and any taper relief gained by way of the failed PET reducing the estate value below £2 million is retained. (£1 relief lost for every £2 estate value above £2 million)

Transfer into trust: When BR qualifying assets (having been held for at least two years by the settlor) are settled into a discretionary trust during the settlor's lifetime, the potential lifetime charge to IHT (usually 20%) is reduced to zero. Holdover Relief could be utilised in conjunction with BR here to defer any CGT otherwise arising on the gift of the shares into the trust. The shares still attract IHT relief at 100%, even if the settlor doesn't survive seven years. But, if the shares are subsequently sold by the Trustees and the settlor dies within seven years, the original transfer into the discretionary trust will become chargeable.

Transfers benefitting from relaxation of the two-year holding period: In the following specific circumstances (where a piece of legislation that 'relaxes' the two year ownership rules applies), Business Relief is still available if the transferor can not fulfil either of the two-year ownership criteria, if:

- They acquired the qualifying assets by gift, and
- When they acquired the qualifying assets, they were eligible for BR, and
- Either the previous or current transfer was made on death (The two year period of ownership condition may be set aside if an earlier transfer of value (which is or would have been eligible for BR, including an exempt transfer (e.g. an inter-spouse transfer)) took place within two years and one of the transfers was made on death. It does not matter whether this is the first transfer or the second transfer, as long as they are not both lifetime transfers. One of the transfers must be on death.

Upon the death of an investor – options include encashment or share transfer:

- **Encashment:** Proceeds of the sale of the BR-qualifying shares are paid to the executors for distribution to estate beneficiaries (which could include a will trust for future protection purposes).
- **Transfer to surviving spouse:** Where the individual is married or in a civil partnership, if they arrange for their shares to pass to their spouse or civil partner on death (inter-spouse transfer), this transfer will be exempt from IHT. In addition, the survivor will be treated as having held the shares from the original date of investment, rather than the date of death. In other words, the two-year period only has to

be satisfied by a period of ownership between husband and wife or civil partners. (This does not apply to a lifetime transfer of BR qualifying shares.)

› **Transfer to non-spouse:** Where the transfer is to someone other than a spouse or civil partner, the BR-qualifying asset is deemed to have been owned from the date of death.

On the death of the investor, the payment of cash proceeds to executors or the transfer of shares takes place once Probate has been granted, along with confirmation from HMRC that the value of the potentially BR-qualifying assets are outside of the charge to IHT.

The exception to this is when the manager is told to pay proceeds directly to HMRC to settle IHT liabilities on an estate. This is known as the Direct Payment Scheme and form IHT423 is used by the executors. Note, not all BR providers will facilitate this.

Direct Payment Scheme

In order to accept instruction to make payment direct to HMRC in settlement of IHT liabilities, BR managers such as TIME, that facilitate the Direct Payment Scheme require, as a minimum: formal instructions from the executors of the will, proof of death, proof of identification of the executors of the will and a completed original IHT423 form. These requirements vary. Executors will also need an IHT reference number from HMRC at least 3 weeks before a payment is made. Further information is available at:

https://www.gov.uk/paying-inheritance-tax/get-a-reference-number

Transfer of BR-qualifying shares case study

Rob acquires some BR Qualifying shares in a fast growing company, however dies within a year.

He passes these shares on to his wife Jen. Although he hadn't held these shares for two years at the point of his death, as he was married to Jen, no IHT is due.

Jen holds the shares for a further three years before passing away unexpectedly, leaving the shares to Richard, their adult son. Richard, 40, is wealthy in his own right, with an estate worth £2 million, and in good health. These new shares will lift him into the RNRB taper.

Richard therefore has a number of options:

1. TRANSFER THEM INTO A TRUST

Removing them from the estate (thus avoiding RNRB taper). However, there may be new costs for setting up a trust if one doesn't already exist.

2. HOLD ONTO THEM

The shares would remain accessible should he require them, but the risk is if he passed away before two years his estate would not qualify for the full RNRB, and the assets would be liable for IHT. After two years, the RNRB would still apply, but at least the BR shares would be IHT free.

3. ENCASH THEM

Proceed with the sale of the shares. Although no IHT will be due, CGT may be due if the shares have gained value since the death of Jen.

4. GIFT THEM TO HIS CHILDREN AFTER 2 YEARS

He would lose access to the shares altogether, but as long as the children did not sell the shares for a further five years, they would not need to pay IHT, regardless of whether Richard survived that long.

3.7

Suitability Considerations

If individuals are looking for income to maintain their lifestyle, to continue growing their funds or just to stave off the corrosive effects of inflation on their capital, and they are sophisticated enough to understand the investment, there is a case for using BR services.

The advice relies on two important elements:

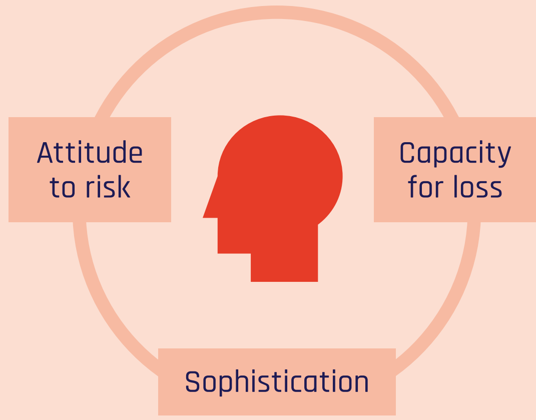
- Ensuring that the client fully understands the risks involved.
- Ensuring that the tax tail, in this case BR qualification, taking the investment outside of the charge to IHT, does not wag the investment dog.

In short, the client must be suitable for the investment itself. Advisers have to assess if, for the clients they have in mind, the advantages of BR outweigh the additional investment risk that is associated with investing in BR qualifying assets. In most cases BR should not be used exclusively. Gifting should be maximised where possible, and a mixed strategy would make sense for most estates.

Nevertheless, there are a few scenarios where BR is probably going to be the only possible solution. Poor health, excess capital within a business and power of attorney scenarios are three examples where BR investment services look like a better bet than traditional estate planning tools.

What follows are some bullet points designed as memory joggers for advisers looking at suitability factors in relation to a possible recommendation of BR.

Traits of the investor



Investors need to have a level of sophistication to understand the underlying investments, but greater understanding may give them more confidence about the risk they are exposed to.

Key suitability considerations

- T&CS
- AGE AND HEALTH OF CLIENT
- OTHER TAX-ADVANTAGED SCHEMES
- PORTFOLIO MAKE-UP
- TIME HORIZON
- TAXATION BENEFITS
- ATTITUDE TO RISK
- CAPACITY FOR LOSS
- KNOWLEDGE & EXPERIENCE

Suitability Considerations:
Memory Joggers

What family circumstances need to be considered?

Is the client married or in a civil partnership? (IHT is not payable on any inheritance that a person leaves to his or her surviving spouse or civil partner and gifts between a husband and wife, surviving spouse, or civil partners are also exempt from IHT (assuming both spouses or civil partners are UK domiciled)). Does the client have direct descendants (stepchildren, adopted or foster children, grandchildren)?

What is the attitude to risk and capacity/ tolerance for loss?

Does the investor (or all of the company stakeholders) understand the risks, including the potential for the loss of the capital allocated to BR – do they have previous experience of investing or business? Would loss of their investment have a materially detrimental effect on the client's lifestyle, business (in the case of corporate BR) and/or how much they want to leave to their beneficiaries?

How much does the client require the tax mitigation?

Has the client made a will and, if so, is it drafted to take advantage of the RNRB? Have gifts, NRB and RNRB already been used? Are other options providing the desired level of IHT mitigation? Are speed of qualification and flexibility factors? For corporate BR, are there excepted assets in the business?

Does the client require access to their funds and if so, how urgently?

Every IHT planning solution will involve some degree of illiquidity, so it is important to ensure that there are sufficient liquid funds available to meet withdrawal needs. BR may be a part of this strategy in a balanced portfolio with a range of liquid and not-so-liquid assets.

Age of the client and beneficiaries?

Are there concerns about the client's health and limited life expectations? Are the beneficiaries old enough for immediate access to any inheritance?

Is there an LPA in place?

Does a potential conflict of interest exist? Do the attorneys have the necessary powers to effectively delegate to a discretionary fund manager?

How balanced is the existing client portfolio?

Investors should not be overexposed to high risk investments, illiquid assets or unquoted securities. The risks and disadvantages of BR qualifying shares should be more than offset by the rest of the portfolio.

Do the clients have any vulnerability issues?

Do their age, physical or mental health, disability, poor literacy, caring responsibilities or the effects of life-changing events require additional levels of care and consideration?

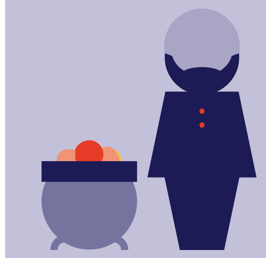
Does the client have any investment objectives beyond reducing their exposure to IHT?

Is the client looking for a growth component or to achieve impact or ESG goals?

Size of the estate?

Is there a good reason to substantially reduce the estate value? Is there time to wait for BR qualification before moving assets into a trust?

Types of BR Services
and the types of clients they might attract



1.

A man in his early 50s who has accessed his pension.

He is now looking to grow his capital in a tax efficient manner, potentially earn income and keep his IHT liability to a minimum

Combine the tax benefits of EIS and BR investments to receive untaxed growth and income, and no IHT liability after 2 years.

2.

Business owner looking to retire

Concerns over the business losing value as he ages but wants to retain IHT relief on the company and safeguard his children's inheritance

Sell the business and invest proceeds into BR qualifying assets, taking advantage of replacement property rules for immediate BR qualification.

3.

Business owner in early 60s

The business is BR qualifying, other than holding excess cash. As a result of Covid, the owner is considering their estate planning

The excess cash can be invested in BR qualifying shares through a corporate BR service, and immediately qualify for BR, without the owner needing to dilute equity in their business.

Research and Due Diligence

4.1

Key Comparisons in Business Relief Services

There are some key areas that advisers should look into to facilitate comparison of Business Relief planning services and their providers. What follows is a summary of the important considerations.

- RISK RETURN PROFILE
- THE FIRM
- BR SERVICE Ts&Cs
- GEARING
- LEVEL OF DIVERSIFICATION
- LEVEL OF CONTROL: SPECIALISTS
- PAST PERFORMANCE
- LIQUIDITY
- INVESTMENT PHILOSOPHY
- DEAL FLOW
- INVESTMENT RISKS, RISK MITIGATION AND MONITORING

Check for greenwashing

ESG is very popular with investors these days. However a lack of agreed unified standards and lack of audit oversight have led to accusations that some companies are falsely claiming ESG credentials. Where a client has specific ESG or impact investing requirements, it is important to understand how the manager understands these terms, and how they ensure the underlying assets meet these criteria. Where any impact investing claims are made, it may also be useful to request more detail on the real-world, tangible and quantifiable results achieved. For example, for renewable energy assets, how much carbon output do they prevent?

Valuation methodology: Unquoted Shares

For advisers looking to recommend unquoted BR funds, it is important to consider how the underlying assets are valued. Questions to ask include:

Who is valuing the underlying assets? Is there a valuation committee that is independent of the investment committee? Are there any independent parties on the valuation committee or involved in the oversight of the valuations to eradicate conflicts of interest? Are the assets being loaned against? How often are the assets valued to take account of changes in market conditions? If discounted cashflow is the valuation method used, are all the assumptions reasonable and up to date? Where appropriate, are assumptions independently sourced and in line with inflation? Finally, what is the justification for the discount rate used?

More Info

For more in depth information on these considerations and input on hedging and professional indemnity cover in BR, please visit our second edition of this guide at: *https://bit.ly/estate-planning-2nd-edition*

SUSTAINABLE CREDENTIALS AND ESG DUE DILIGENCE POINTERS

Availability of reliable, tangible data from investment managers with any kind of ESG focus is absolutely key. The provision of data to back up the claims made about the ESG credentials of the portfolios they manage is critical to an understanding of whether the manager and its relevant investee companies are truly ESG compliant.

In the BR universe there are some useful examples of this in renewable energy - currently the most popular and easily identifiable sustainability-connected sector invested in by BR managers and home to some of the UK's biggest investors in this area:

OCTOPUS INVESTMENTS

Fern Trading Limited, the company that most investors in the Octopus Inheritance Tax Service own shares in, owns renewable energy assets that:

- Produce enough energy to power every home in Bristol (around 200,000), and
- Reduce methane emissions by the equivalent of the output of almost 50,000 cars.

TIME INVESTMENTS

Its IHT investment solution has funded renewable energy projects and assets that:

- Generate enough clean energy to power 145,000 UK homes.
- Offset over 127,000 tonnes of CO2 from the air each year.

FORESIGHT

The company's inheritance tax solution has invested in renewable energy assets that:

- Produce enough electricity to power 148,000 UK homes
- Offsetting the carbon of 57,000 people taking round-the-world flights

SOURCE: TIME INVESTMENTS, DECEMBER 2021

OTHER ITEMS TO CONSIDER:

- Where appropriate, asking about voting records and board level interactions with investee companies can provide useful evidence to determine what managers are doing in practice.
- Understanding how managers define sustainability to find out how they do or don't align with your client's definition is important. Looking at all the current holdings, as well as the future intentions will be crucial to gauge the direction of travel.
- Consider the G - governance - of the offer and provider. Without it the E and S may be significantly undermined. Transparency on compliance measures can be a good indicator here.
- Don't take professional expertise for granted. There are professional qualifications in sustainability or some staff may have experience of digging into the ESG claims of their potential investees and help guide them after investment.

Case Studies

Disclaimer

The following case studies are designed to demonstrate a number of different scenarios that might apply to certain prospective investors. Nothing here should be viewed as advice. Any suitability decisions should be based on a comprehensive review of a client's objectives, needs, capacity for loss, investment experience, and attitude towards risk.

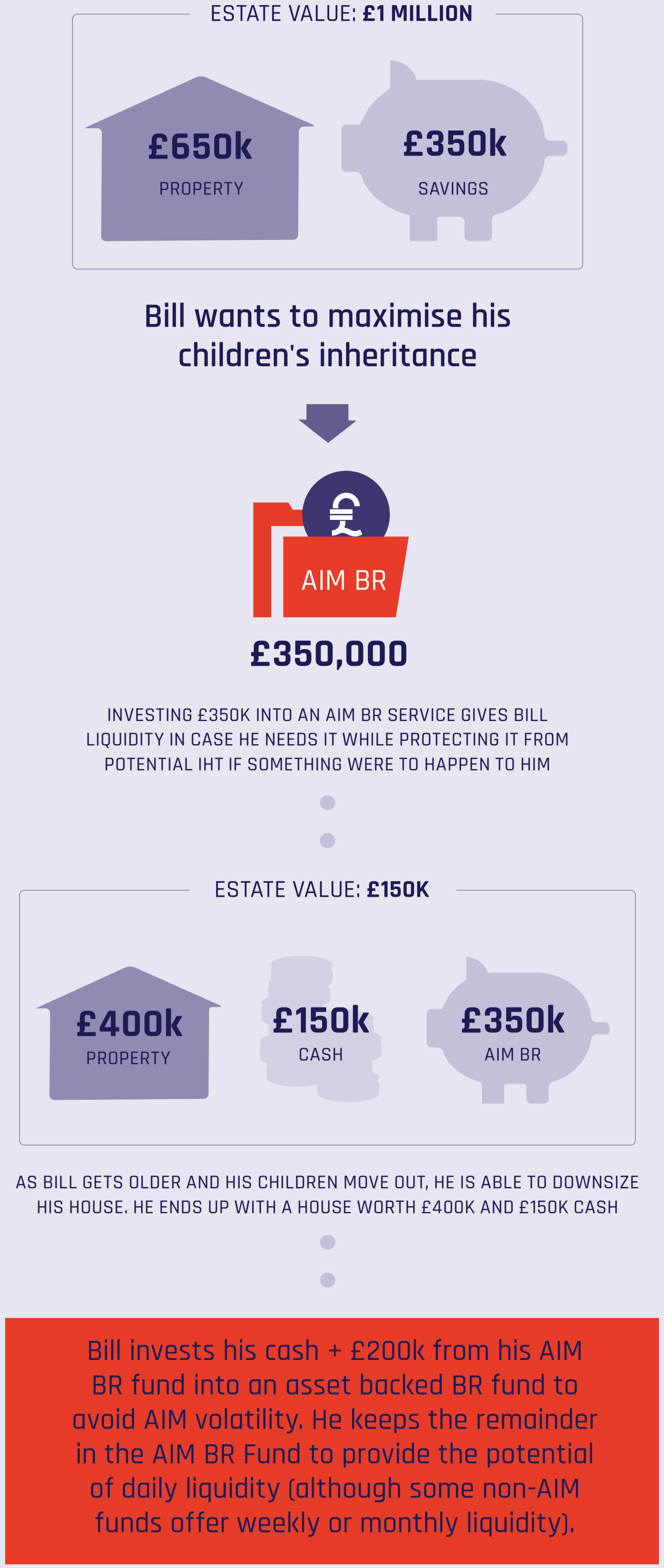
BR in Action

CASE STUDY 1

LIFE STAGES BR APPROACH

SCENARIO:

Bill is 55, unmarried but with three teenage children. He has a reasonably large estate, so wishes to begin his estate planning to ensure if something happens to him, his children will receive as much as possible.



CASE STUDY 2

EXCESS CASH IN TRADING BUSINESS

SCENARIO:

Rosie, 64 and in good health, owns 100% of the shares (unquoted) of a successful grocery shop that has been in her family for generations.

£3,000,000

£2,350,000
BUSINESS VALUE

£650,000
EXCESS CASH*

The excess cash will not qualify for BR since it is not being used for trading purposes and isn't earmarked for future identifiable business use - therefore this would be an 'excepted asset' and a proportion of the value of the shares wouldn't qualify for BR. This could cost Rosie's estate £260,000 on death (£650,000 x 40% at current rates)

ROSIE USES A CORPORATE BR SERVICE TO PUT IN PLACE A STRUCTURE TO KEEP THE CASH WITHIN THE BUSINESS

THE BR SERVICE INVESTS THE EXCESS CASH IN ASSET BACKED, BR QUALIFYING, TRADING ACTIVITIES

Since the original grocery business is BR qualifying, the new assets should immediately qualify for BR and her shares in the company qualify in full for BR. When she retires, this investment could also continue to pay her dividends to supplement her pension.

*Derived from the sale of commercial premises that the business no longer uses. (The building was sold without a capital gain, so no CGT is payable.) This cash is not required for acquiring stock or to meet the running costs of the business and there are no plans to use it for any kind of future expansion or other business purpose.

CASE STUDY 3

USE OF BR FOR PROPERTY SALE

SCENARIO:

Sarah is 67 and has decided to sell one of her rental properties as part of her estate planning. During her ownership of the property it has increased in value from £350,000 to £450,000

Sarah gains £100k from the sale of her rental property

This incurs a £28,000 CGT bill. But she decides to invest the £28,000 into an EIS fund which defers the CGT.

SHE ALSO INVESTS THE REMAINING £422,000 PROCEEDS FROM THE SALE INTO A BR SERVICE WHICH PROVIDES LIQUIDITY IN CASE SARAH NEEDS CAPITAL.

2 YR
AFTER HOLDING THE BR SHARES FOR 2 YEARS, THEY BECOME IHT-FREE

3 YR
AFTER 3 YEARS HER EIS INVESTMENTS BEGIN TO EXIT

SARAH REINVESTS HER EIS INVESTMENTS TO ROLL FORWARD THE CGT DEFERRAL

5 YR
SARAH DIES.
HER BR FUNDS HAVE GROWN TO £500,000

The CGT due for her original sale does not transfer to her next of kin, so the EIS investments can be passed on in full.

CASE STUDY 4

REPLACEMENT PROPERTY RULES
(CORPORATE)

SCENARIO:

Andrew has owned a small business for many years and would like to retire, but is reluctant to do so as he sees the business as his children's inheritance and fears losing the IHT relief in relation to the business. However, he can see that as he puts less time into the business, it is losing value, as much as 15% per year.

DECLINE OF BUSINESS VALUE (15% p.a.)

	BUSINESS VALUE	CUMULATIVE LOSS
Original amount (2021): £4,500,000		
2022	£3,825,000.00	£675,000.00
2023	£3,251,250.00	£1,248,750.00
2024	£2,763,562.50	£1,736,437.50
2025	£2,349,028.13	£2,150,971.88
2026	£1,996,673.91	
OVERALL DECLINE IN VALUE		£2,503,326.09

*The potential CGT on the sale of the business would normally need to be considered but is not considered in this example which focuses on IHT and BR.

Andrew fears his business will lose value

HE SEEKS HELP FROM AN ACCOUNTANT WHO REFERS HIM TO A FINANCIAL ADVISER

ANDREW IS ADVISED TO SELL THE BUSINESS* AND INVEST THE PROCEEDS INTO A PORTFOLIO OF BR QUALIFYING INVESTMENTS

3 YR

As Andrew's business already qualified for BR, the replacement property rule applies and therefore he just needs to ensure that the reinvestment happens within three years of the original sale.

The new BR portfolio is 100% outside of the charge to IHT as soon as the assets are acquired. Brian can exit his business and retire without sacrificing the IHT relief he had earned, and still expect some growth in this part of his estate.

CASE STUDY 5

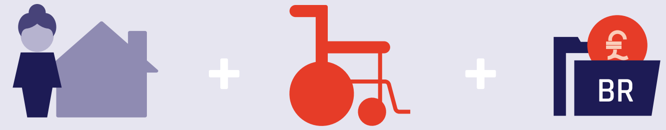
ELDERLY AND IN POOR HEALTH

SCENARIO:

Blanka is 80 and single. She is in ill health unlikely to survive 7 years and is aware that, because she has no children, her estate will not benefit from the RNRB, but is very close to her godson to whom she wants to leave as large an inheritance as possible.

*An optional two-year term insurance policy would give added protection by paying out the equivalent of any IHT due on the investment amount should she die before the two-year BR qualification period expires.

Blanka's main asset is her house, which is currently valued at £700,000.



£300,000 + £200,000 + £200,000

She downsizes to a property valued at £300,000, sets aside £200,000 for any potential care costs, and invests her £200,000 remaining assets into a BR service.*

2 YR — ✓ BR Qualifying

2 YR

OVER 5 YEARS, HER BR INVESTMENTS GROW TO A VALUE OF £230,000 AND ALL OF HER £200,000 CARE BUDGET HAS BEEN SPENT*

On death, after five years, her house value has appreciated to £325,000 but does not exceed the NRB, so no IHT is due. **Blanka has a total of £555,000 of assets to leave to her godson.**

The £230,000 in the BR service is covered by BR and therefore outside of the charge to IHT on death

CASE STUDY 6

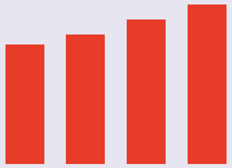
ONGOING ACCESS TO FUNDS

SCENARIO:

Ravi invested £100,000 in an estate planning service a few years ago to mitigate a potential charge to IHT. He is now unexpectedly in need of funds to support his son's business.

Ravi invested £100,000 in an estate planning service with his son in mind

As the investment was made with the intention of benefiting his son anyway, he sees no difference in unwinding it and making the funds available to his son. As his BR investment is in AIM shares, his fund manager is able to sell his holdings quickly and return the money back to Ravi within a few business days.



THE INVESTMENT HAD MADE A MODEST PROFIT OVER THE LAST FEW YEARS

£100K BR INVESTMENT ENCASHED AT

£117,580.94*

INVESTMENT PROFIT
(Assuming 1% exit deal fee)

GROWTH P.A.	3.5%
YEAR 1	£103,500.00
YEAR 2	£107,122.50
YEAR 3	£110,871.79
YEAR 4	£114,752.30
YEAR 5	£118,768.63
EXIT LESS DEAL FEE @ 1%	£117,580.94

*NB: Gifting the cash proceeds to his son means there may be CGT to pay on the gain and makes this a PET. If there was no need for cash, Ravi could have instead gifted the BR qualifying shares to his son, potentially maintaining BR if the gift becomes a failed PET and using holdover relief to defer any CGT liability

CASE STUDY 7

COMPATIBILITY WITH POWER OF ATTORNEY

SCENARIO:

Renata, an elderly lady with an estate worth £820,000, has lost capacity and is unable to administer her own finances, but she has always wanted to pass on as much of her wealth to her children as possible.

Renata's estate:

PROPERTY SHE LIVES IN
(£300,000)
+
CASH
(£200,000)
+
SHARE PORTFOLIO
(£320,000)
=
£820,000

Pierre, Renata's old business partner, is the attorney for her Lasting Power of Attorney (but not a beneficiary of her will)

When looking at IHT planning for Renata's estate, Pierre must ensure that any investment decisions are made in Renata's best interests and won't disadvantage her, for example, by making her money inaccessible (e.g. by making large gifts).

AFTER CONSULTING HIS ADVISER, HE REINVESTS £150,000 OF RENATA'S CASH AND £170,000 OF HER SHARE PORTFOLIO (A TOTAL OF £320,000) INTO BR QUALIFYING INVESTMENTS* WITHOUT THE NEED FOR UNDERWRITING OR A MEDICAL

2 YR

✓ BR Qualifying

TAX SAVING No planning: IHT bill = £128,000
Planning using BR: IHT bill = £0

*As Renata is making investments (in her own name) and not gifts, this is permissible where an LPA is in place. The adviser noted that Renata's NRB of £325,000 is available and her house should qualify for at least £175,000 RNRB even if she dies in early 2026. That leaves £320,000 of her assets exposed to IHT.

CASE STUDY 8

RNRB, GIFTS AND BR

SCENARIO:

James has a substantial estate valued at well over £2 million, including a residence with a value of £800,000. He has two children, but is unmarried. He retains the mental capacity to make gifts.

James does not want his RNRB to be tapered away (£1 relief lost for every £2 estate value above £2 million)

£500,000 BR

HE MAKES A BR INVESTMENT OF £500,000

✓ BR Qualifying

THIS LEADS TO 100% IHT RELIEF

JAMES GIVES AWAY THE BR QUALIFYING INVESTMENT TO HIS BROTHER, DOUG

This takes the value of James's overall estate to below £2 million so James regains the RNRB*.

JAMES DIES IN FOUR YEARS** IN 2025

The BR investment saved IHT of £200,000 and his estate benefits from the RNRB of £175,000 and, therefore, the IHT savings are £375,000.

* If they are held at the date of death, BR qualifying investments remain part of the estate value calculation for the purposes of the RNRB.

The gift could be to a person or to a trust, as appropriate.

** The gift is a failed PET because James did not survive seven years from the date of the gift. However, failed PETs are not added back into the estate for RNRB purposes and the relief, gained by avoiding the taper, is retained.

If the asset qualified for BR in James's hands at the date of the gift and is retained by Doug until the date of James's death and it still qualifies for BR at the date of death, it retains its BR status in James's estate and there is no additional IHT due.

CASE STUDY 9

BR AND GIFTS

SCENARIO:

June is a widow aged 80. She has inherited her deceased husband's full NRB and RNRB.

PLANNING SUMMARY

	With no IHT planning	With a BR based estate planning service & gifting
PROPERTY	£1,000,000	£1,000,000
OTHER ASSETS	£875,000	£875,000
TOTAL ESTATE	£1,875,000	£1,875,000
BR INVESTMENT	£0	£375,000
NIL RATE BAND	£650,000	£650,000
GIFTS USING NRB	£0	£325,000
GIFT ALLOWANCE AVAILABLE	£6,000 (unused)	£6,000
CASH SPENT BEFORE DEATH	£55,000	£55,000
REMAINING NRB	£650,000	£331,000
RESIDENCE NIL RATE BAND (2021/22)	£350,000	£350,000
TOTAL ALLOWANCE	£1,000,000	£681,000
IHT FREE ASSETS	£0	£375,000
TAXABLE ESTATE	£820,000	£439,000
IHT PAYABLE	£328,000	£175,600
RESIDUAL ESTATE	£1,547,000	£1,319,400
IHT SAVING	£0	£152,400

JUNE'S ESTATE: **£1.875 MILLION**

£1 million

HOME

£875,000

INVESTMENTS & OTHER ASSETS THAT DON'T QUALIFY FOR BR

June combines gifting and BR strategies:

£325,000

SHE GIFTS £325,000 FROM HER INVESTABLE ASSETS TO HER FAMILY

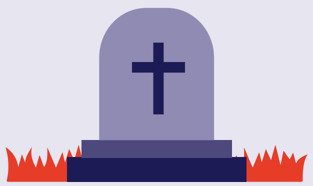
£375,000

SHE INVESTS £475,000 INTO A BR ESTATE PLANNING SERVICE

Gifts are made only three years before her death, so are failed PETs; but June has made no prior transfer in the seven years preceding the date of the gift and its value falls within the NRB so there is no further IHT due on the gift.

£150,000

THE INVESTMENT FALLS OUTSIDE SCOPE OF IHT AFTER 2 YEARS GIVING £150,000 IHT SAVING



JUNE SPENDS £55,000 BEFORE HER DEATH IN 2022 (BEFORE 5 APRIL)

JUNE'S ESTATE ON DEATH: **£1,495,000**

£1 million
HOME

£120,000
REMAINING ASSETS

£375,000
BR QUALIFYING ASSETS (BENEFITING FROM 100% IHT RELIEF)

£650,000 of NRB available (June and husband) is reduced by £319,000 to £331,000 (after the value of the failed PET: less the year of the gift and the previous year's annual gift allowance of £6,000) and offset against the value of the PET.

June has left her home in her will to her direct descendants and can access RNRB.

£175,000 RNRB
TRANSFER AVAILABLE

(100% of her husband's unused RNRB - he died in 2016, and if the person died before 6 April 2017, the unused RNRB threshold and total available RNRB threshold are both deemed to be £100,000 so the unused percentage is 100%.) 100% is applied to the RNRB threshold at the death of the second spouse: 100% x £175,000.

TAXABLE ESTATE:
Estate value (£1,495,000) - total RNRB (£350,000) = £1,145,000 - total NRB (£331,000) = £814,000 - BR qualifying investments (£375,000) = **£439,000 taxable estate**

CASE STUDY 10

AIM ISA CONTRIBUTIONS OVER A NUMBER OF YEARS TO BUILD A TAX EFFICIENT POT

SCENARIO:

Carlo, retired and in his 70s, has accumulated a £135,000 ISA portfolio including stocks and shares, which he has over 20 years of experience of investing in. He would now like to find a way to invest that retains the tax benefits of an ISA wrapper, without the potential IHT liabilities.

*Even if the value of the AIM IHT ISA doesn't go up, his beneficiaries still save £53,460 after all fees without the IHT liability.

**Each additional investment starts a new two year BR qualification clock for that investment.

CARLO TRANSFERS HIS EXISTING ISA TO AN AIM IHT ISA WITH THE OBJECTIVE OF IHT MITIGATION, FREE OF TAX

AIM IHT ISA

- There are none of the costs of putting assets into trust or buying a life assurance policy.
- Any non-AIM/non-BR qualifying AIM shares are sold and, because this is done within the ISA wrapper, any gains made on the shares are not subject to CGT.

AIM BR

THE MANAGER OF THE SERVICE INVESTS THE FUNDS INTO SUITABLE AIM BR SHARES

Results after five years

	Estate without IHT planning	AIM IHT ISA	AIM IHT ISA (3.5% growth (net) not reinvested**)	AIM IHT ISA (3.5% growth (net) reinvested**)	AIM IHT ISA (3.5% growth (net) reinvested with additional £6,000 invested at start of each year**)
GROSS (INVESTMENT) VALUE	£135,000	£135,000	£135,000	£135,000	£135,000
1% INITIAL FEE	£0	£1,350	£1,350	£1,350	£1,350
NET INVESTMENT	N/A	£133,650	£133,650	£133,650	£133,650
IHT AT 40%	£54,000	£0	£0	£0	£0
GROWTH IN VALUE ON GROSS INVESTMENT	- £54,000	- £1,350	£23,389***	£25,084	£58,385 (£30,000 of which is additional capital)
VALUE OF INHERITANCE LEFT TO BENEFICIARIES	£81,000	£133,650*	£157,039	£158,734	£192,035
IN THIS EXAMPLE, THE CHOSEN AIM IHT ISA MANAGER CHARGES 1% INITIAL FEE WITHOUT ANY DEALING FEES, ONGOING FEES OR EXIT CHARGES. THESE FIGURES WILL VARY DEPENDING ON WHAT FEES ARE APPLIED BY THE RELEVANT AIM IHT MANAGER					

*** This is potentially exposed to IHT as it is not reinvested in BR qualifying shares.

2 YR

✓ BR Qualifying

This leads to 100% IHT relief and also offers access to the growth potential of carefully-selected UK smaller companies, and access to his funds when he wants them.

Trust Interactions

CASE STUDY 1

DISCRETIONARY TRUSTS

Business Sale Proceeds and efficiently funding a high value discretionary trust

SCENARIO:

Georgina is 61 and is keen to put £650,000 cash, from the sale of her business a few months ago, into a discretionary trust for her grandchildren.

*If Georgina's company did not undertake a BR qualifying activity, she could still avoid the CLT charge by initially investing the £650,000 into a BR qualifying investment and after two years she could settle the BR qualifying investment into the discretionary trust.

POSSIBLE CHARGES

If Georgina dies within seven years and if the trustees disposed of the BR qualifying assets within seven years, the transfer into trust would fall back into charge and IHT would become payable on the amount by which the value transferred exceeded the NRB.

If the trustees hold the BR qualifying investment for a two-year period and the asset itself continues to qualify for BR, no periodic or exit charges should arise.

Georgina's previous business undertook BR activities for ten years

GEORGINA SELLS THE BUSINESS AND WANTS TO PUT THE PROCEEDS INTO A TRUST

She has already used her NRB by establishing other trusts and making personal gifts. Consequently, Georgina would be liable for the chargeable lifetime transfer into trust:

20% charge on £650,000 = £130,000 IHT due

£650,000 INTO BR

To avoid the charge, Georgina reinvests the money into BR within three years of the sale of the business

£650,000 INTO TRUST

Now she can move assets into trust with Chargeable Lifetime Transfer at 0% thanks to BR qualification*

2 YR

✓ BR Qualifying

CASE STUDY 2

DISCRETIONARY TRUSTS

BR investment into a discretionary will trust to avoid passing all assets to surviving spouse (and avoid loss of RNRB due to taper threshold)

SCENARIO:

Greg owns £540,000 of BR qualifying shares in SmithTechnology (held for five years), an unlisted trading company. He and his wife, Beatrice, also own a property worth £1.6 million and hold other assets and investments totalling £900,000. Their total estate value is £3,040,000. Greg dies in mid-2022.

HOUSE VALUE
£1.6m

+

£540,000
BR QUALIFIYING SHARES INVESTED INTO SMITH TECHNOLOGY

£900,000
OTHER ASSETS AND INVESTMENTS

£3,040,000
TOTAL ESTATE VALUE

If Greg leaves all his assets to Beatrice, his estate will not qualify for the RNRB as he has not left a home to his children or grandchildren (direct descendants).

BR Qualifying
BR AND SPOUSE EXEMPTION ENSURE THAT THERE IS NO IHT ON GREG'S DEATH

4 YRS LATER
ON BEATRICE'S DEATH, SHE LEAVES THE FAMILY HOME TO THE COUPLE'S TWO CHILDREN

But does not qualify for the RNRB as her estate is too large causing the RNRB to taper away.

Calculation of RNRB available (before any taper)

100%
(THE PROPORTION OF GREG'S UNUSED RNRB)

x

£175,000
THE RNRB RATE AT THE DATE OF THE DEATH OF THE SURVIVING SPOUSE. RNRB RATE UNTIL APRIL 2026 HELD AT £175,000

=

£175,000
RNRB THAT BEATRICE CAN USE IN ADDITION TO HER £175,000 ALLOWANCE

RNRB Taper: £1 RNRB lost for every £2 of estate value over £2,000,000
RNRB available = £350,000
RNRB Taper on £1,040,000 above £2,000,000 = £960,000
So no RNRB remains available

There is an IHT liability of £740,000 on Beatrice's death.

(£540,000 BR is claimed for the shares in the company inherited from Greg, the couple's full NRB of £650,000 is applied leaving an estate of £1,850,000 subject to IHT at 40% - £740,000 payable).

Alternatively...

GREG'S WILL

£540,000
BR QUALIFIYING SHARES

Discretionary trust
BENEFICIARY: BEATRICE

This takes the shares outside Beatrice's estate

BEATRICE'S ESTATE: **£2.5M**

£1.6m
PROPERTY

£900,000
OTHER ASSETS

£540,000
BR QUALIFIYING ASSETS TAKEN OUTSIDE ESTATE

If the £540,000 had not been in trust, even if it was BR qualifying and not liable to IHT, it would have been considered as part of the estate. But removal of the £540,000 allows further use of some of the RNRB by reducing the estate value to £2.5 million.

RNRB taper: £1 RNRB lost for every £2 of estate value over £2,000,000

RNRB available = £350,000

RNRB taper on £500,000 above £2,000,00 = £250,000

So, £100,000 of RNRB remains available

Using the trust therefore has a double tax saving benefit in these circumstances. There is an IHT liability of £700,000 on Beatrice's death.

(£3.04 million less £540,000 successfully gifted into trust, less £650,000 NRB, less £100,000 RNRB leaves £1,750,000 subject to IHT @ 40% = £700,000 payable).

CASE STUDY 3

DISCRETIONARY TRUSTS

BR investment gifted into discretionary trust to reduce estate value for purposes of RNRB taper threshold

SCENARIO:

A married couple in their 80s, who have not yet done any estate planning, places £740,000 into a BR service, having an estate valued at £2.9 million, including a house worth £1 million.

TOTAL ESTATE VALUE: **£2.9M**

£1m
HOME

£1.9m
OTHER ASSETS

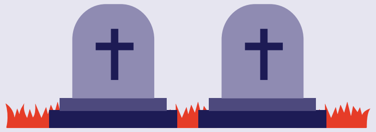
£160,000
TO COVER ANY ONGOING EXPENSES

£740,000
BR SERVICE INVESTMENT

2 YR

BR Qualifying

£740,000
INVESTMENT PUT INTO TRUST



The couple dies in 2023

TOTAL ESTATE VALUE AT DEATH: **£2 MILLION**

£1m
HOME

£1m
OTHER ASSETS

£740,000
HELD IN TRUST
(OUTSIDE ESTATE)

The estate value does not exceed £2 million
(£1 RNRB lost for every £2 of estate value over £2m)
Full £350,000 RNRB available
No RNRB is tapered away

If the £740,000 had not been in trust, even if it was BR qualifying and not liable to IHT, it would have been considered as part of the estate, taking the estate value to £2.74 million. As a result, the full £350,000 RNRB would have been lost.

In addition, the couple hadn't used any of their respective NRBs and their estate benefits from a further allowance of £650,000 on their estate. So, the NRB and the RNRB (£175,000 each) total £1 million and can be set against the house.

RESULTING ESTATE VALUE: **£2 MILLION**

£1m
HOME
(No IHT as it is offset by NRB and RNRB)

£1m
taxable to IHT at 40%, totalling £400,000

*(No RNRB taper applies as estate value does not exceed £2,000,000)

SUMMARY OF IHT PLANNING

Item	Value
PROPERTY	£1,000,000
OTHER ASSETS	£1,900,000
TOTAL ESTATE	£2,900,000
BR ESTATE PLANNING SERVICE (QUALIFYING AFTER TWO YEARS)	£740,000
AFTER BR QUALIFIED, THE BR ASSETS ARE GIFTED INTO TRUST	£740,000
20% IMMEDIATE CLT CHARGE ON TRANSFER AMOUNT IN EXCESS OF NRB	Not applicable as assets settled into trust are 100% outside of the charge to IHT
ONGOING EXPENSES SPENT (MONEY SET ASIDE)	£160,000
The couple passes away in 2023 (in the 2023/2024 tax year), the following charges apply:	
ESTATE VALUE house and non-BR investment	£2,000,000
RNRB	£350,000
NIL RATE BAND	£650,000
TOTAL IHT FREE ALLOWANCE	£1,000,000
IHT FREE ASSETS	£740,000
TAXABLE ESTATE	£1,000,000
REMAINING IHT PAYABLE	£400,000
RESIDUAL ESTATE	£2,340,000

CASE STUDY 4

DISCRETIONARY TRUSTS

Client in his 80s who has already gifted £325K (+annual gift allowances) into a discretionary trust, uses BR to shelter further funds

SCENARIO:

Sergey is in his 80s and widowed. He set up a discretionary trust in 2018; having not transferred any other chargeable assets into trust in the preceding seven years, he gifted a total of £325,000 into trust.

£325,000

SETS UP A DISCRETIONARY TRUST, NOT HAVING TRANSFERRED ANY OTHER CHARGEABLE ASSETS IN THE LAST SEVEN YEARS

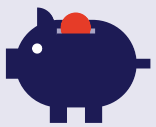
+£300,000

AN INVESTMENT HE MADE FIVE YEARS AGO HAS JUST MATURED AND HE NOW HAS AN ADDITIONAL £300,000 IN HIS ESTATE

SERGEY WANTS TO GIFT THE £300,000 INTO TRUST BUT HIS ADVISER POINTS OUT THERE WOULD BE A 20% CHARGE*

HE INVESTS IN BR ASSETS IN ORDER FOR THE £300,000 TO BENEFIT FROM 100% IHT RELIEF

2 YR



He places the BR qualifying assets into trust with no CLT charge.
Total IHT saving = **£120,000**

JONATHAN'S TRANSACTIONS

2011 - 2017	2018	2019	2020	2021	2022	2023	2024
NO GIFTS	£325k TRUST			£300k BR INVESTMENT		*	
	(NO CLT)			(NO CLT)			

* BR investment falls outside of the charge to IHT

*Any amount over the NRB will be deemed a chargeable lifetime transfer (CLT) subject to immediate charge to IHT.

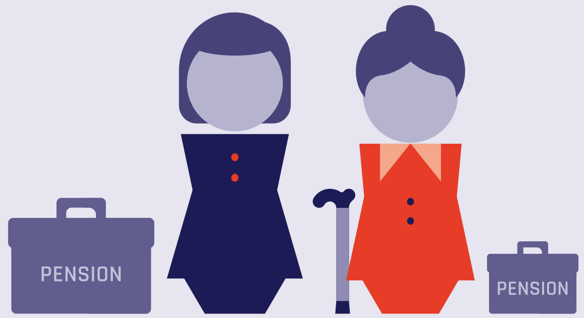
CASE STUDY 5

LIFE INTEREST TRUSTS

Immediate Post Death Interest trust (IPDI) created by a life interest trust investment to shelter the trust fund from IHT on death of life tenant

SCENARIO:

Alison and Pauline are married and in their 70s. Both have adult children from previous marriages and would like their respective children to inherit their individual estates.



ALISON'S WILL

SET UP OF AN **IPDI TRUST** TO PROVIDE HER WIFE WITH AN INCOME

DIRECT HER CAPITAL TO HER CHILDREN ON WIFE'S DEATH

To prevent the value of assets held in the IPDI trust being aggregated with her wife Pauline's estate on Pauline's death, leading to a charge to IHT before the net capital is distributed to Alison's children, the IPDI trust is invested into a BR qualifying investment on Alison's death.

✓ BR Qualifying

ALTERNATIVE ROUTE

If Alison invested in BR qualifying assets during her lifetime and directed the investment to the IPDI trust in her will, her wife would only have to survive for the balance of the two-year qualifying period to ensure the capital was outside of the charge to IHT.

Both strategies enable the full amount of Alison and Pauline's NRB to be applied against their own estate to protect it for the benefit of their own children.

*If Pauline holds the investment at the time of her death and the total ownership period between her and Alison is at least two years, the trust capital invested will be outside of the charge to IHT.

The Practical Route to BR

7.1 Business Asset Disposal Relief

Prior to the Spring 2020 Budget, Entrepreneurs Relief granted a CGT relief for the disposal of shares, reducing the amount of CGT paid to 10% if the criteria were met. For more information on the prior relief, see the BR Guide, second edition.

Since 6 April 2020, this has been known as Business Asset Disposal Relief (BADR), which acts in a very similar manner to the old relief.

A key difference is the amount of relief which can be claimed. Whereas prior to 2020, relief could be claimed on up to £10 million of lifetime gains, for Business Asset Disposal Relief, this is just £1 million.

In order to qualify for BADR, the client must be an employee or office holder in the company for at least two year prior to a disposal. The business must be a 'personal company' where the investor holds at least 5% of the shares, and voting rights, entitlement to profits or assets on a winding up evidencing a material stake in the business.

Minority shareholders who see their investment dip below 5%, as a result of a commercial issue of fresh equity, are able to elect to protect their BADR by crystallising a notional gain. This will require the tax to be paid on the notional gain, albeit at the reduced BADR rate of 10%, or tax on the gain may be deferred until the actual sale of the shares. But, in the event of deferral, the shareholder must continue to satisfy the other conditions for BADR (notably employment) in order to claim relief.

BUSINESS ASSET DISPOSAL RELIEF

RELIEF/WRAPPER	Business Asset Disposal Relief	Investors Relief
RATE OF RELIEF	CGT is applied at 10%	CGT is applied at 10%
ELIGIBLE PARTIES	Directors or employees of the company holding a minimum of 5% shares and material stake in the business	External investors in the company, holding newly issued shares
MIN. HOLDING PERIOD	2 years	3 years
WINDOW OF OPPORTUNITY	The relief has to be claimed (i.e. it is not automatic). The deadline for claiming is 31st January in the year that is 2 years after the tax year in which the shares are sold.	The shares must have been issued on/after 17 March 2016. The relief has to be claimed (i.e. it is not automatic) and is reported to HMRC on the tax return for the year in which the disposal takes place.
MAXIMUM LIMIT	Lifetime cap of £1m	Lifetime cap of £10m
FURTHER CONSIDERATIONS	Applies to investments in unlisted trading companies, many of which may also be eligible for BR	Applies to investments in unlisted trading companies, many of which may also be eligible for BR

INVESTORS RELIEF

Since 2016, external investors in unlisted trading companies have been able to claim Investors' Relief. This is separate to BADR, and applies a rate of CGT of 10% to gains accruing on the disposal of ordinary shares in an unlisted trading company held by individuals.

The shares must be held for 3 years from 6 April 2016 before disposal. They must be ordinary shares and not listed on a recognised exchange. There are also restrictions on the ability of investors to be employees or directors of the company, which must be trading.

7.2

Technical Points

Although the qualification rules may seem simple, it's still worth looking at some of the technical points that advisers need to know and that could exclude an investment from BR qualification or create other potential issues.

Anti-Avoidance

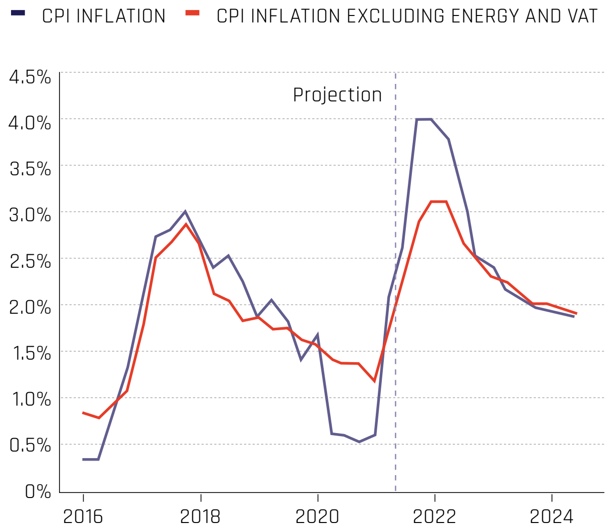
CASH ASSETS

HMRC has confirmed that it has not reframed its calculations of what volume of cash within a business should be considered as 'excepted assets' for the purposes of Business Relief as a result of Covid-19. It is therefore prudent for companies to retain relevant records from an IHT perspective, that support any significant cash balances they are holding.

Inflation Rates & Gearing

Some BR services may have a positive correlation to inflation and see an increase in their returns when inflation rises. Services that use gearing, but with underlying assets that have a negative correlation to inflation, would see an increase in their cost of borrowing, without a concurrent increase in the return from their underlying investments. Given inflationary pressures, this is a key factor to bear in mind.

QUARTERLY CPI INFLATION



SOURCE: BANK OF ENGLAND MONETARY POLICY REPORT, AUGUST 2021

More Info

There are complexities that can apply to BR investing. For more details on cash holdings within, and binding arrangements to sell a BR-qualifying company, land and holdings, timing of deployment, and the use of debt in purchasing BR-qualifying shares, visit the second edition of this guide at: *https://bit.ly/estate-planning-2nd-edition*

7.3

CGT and Income Tax

Investors will need to declare any income they receive from their investment as part of their tax return, and if they were to sell the shares at a profit they may be liable for CGT, depending upon their personal circumstances.

If the liquidity for an exit was created by a share buyback instead of a matched bargain (matching inflows with outflows), then the investor may be subject to income tax rather than CGT. This will be dependent on how BR service managers structure and operate their service.

If the shares are inherited, when a beneficiary sells shares that previously qualified for BR for IHT purposes, they will be liable for any CGT due. Any gain they make will be based upon the difference between the value of the shares at the death of the original investor, and the proceeds from the disposal made by the beneficiary. Depending upon their personal circumstances, the beneficiary may also be subject to income tax on any income they earn while holding the shares. In the right circumstances, BR assets which also qualify for the Enterprise Investment Scheme (EIS) and Seed EIS (SEIS) can be used to offset income tax and CGT and defer CGT liabilities.

7.4

Claiming the Relief

BR has to be applied for by the deceased investor's estate or by the individual in most cases of lifetime transfers and cannot be guaranteed upfront (unless there has been a successful lifetime transfer).

To obtain IHT relief using BR, the executors of the estate will need to fill in both form IHT400 (Inheritance Tax Account) and schedule IHT412 (Unlisted stocks and shares, and control holdings) or schedule IHT413 (Business or partnership interests and assets).

SCHEDULE IHT412 applies if BR is being claimed on shares (including shares listed on AIM).

SCHEDULE IHT413 applies if BR is being claimed on an asset used in a business or if the deceased owned a business.

These must be sent to HMRC within 12 months of the end of the month of death or penalties may apply.

For unlisted share valuations, the BR should be valued on an open market basis. AIM share valuations can be found by visiting the AIM pages of the London Stock Exchange website: *http://www.londonstockexchange.com/companies-and-advisors/aim/aim/aim.htm*

How BR managers can assist

Some BR managers facilitate the Direct Payment Scheme which allows them to make payment to HMRC in settlement of IHT liabilities upon instruction.

Some also provide bereavement guides that explain the options available on the death of an investor. Of course, they will also provide valuations of BR-qualifying share portfolios when investors pass away to enable the estate to undergo the claim process.

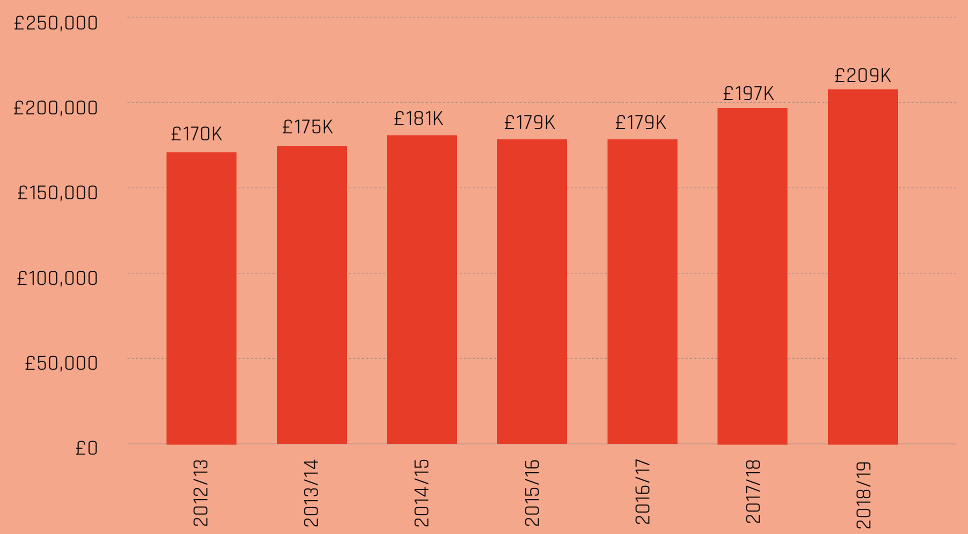
The cost of Deferral

8.1

HMRC's 2021 statistics show that, in 2018/19, the average IHT tax bill stood at £209,000*. With sufficient tax planning, in many cases it would have been possible to reduce this bill down to substantially less - possibly even zero. A big issue, however, is that IHT planning needs to be done well in advance of the client's death (or loss of capacity), and may not be their top priority. This section of the guide will look at why clients may put off their IHT planning, the reasons this could cost them and their beneficiaries in the end, and a few tips around how you could broach the subject.

*There is a lag in IHT statistics as there is a delay between death (when the tax charge is created) and receipts (when HMRC receives the tax payment)

AVERAGE IHT CHARGED PER LIABLE ESTATE



SOURCE: HMRC

Client disengagement

Regardless of whether BR is part of a client's strategy or not, Inheritance Tax planning takes time. Reliefs can take years to come into effect, and as this section will show, leaving it until the last minute can cause a number of painful, unintended side effects. Despite this, many clients do not consider their IHT strategy until quite late in life, possibly when it could be too late.

In order to overcome these issues, it is important to understand some of the key reasons why clients might be unwilling to discuss their estate planning for as long as possible.

1. **Uncomfortable talking about their own death:** People looking to minimise the amount of IHT their descendants will pay generally need to acknowledge their own mortality. While this may not be a problem for some clients, for others, this can be a difficult topic. For financial advisers, this can cause difficulty discussing it with clients.

2. **It won't directly benefit the client:** An unfortunate truth about all IHT planning is the person doing the planning won't ultimately benefit from it, as they will be dead. For clients with pressing day-to-day concerns, it therefore may not be top of their agenda.

3. **Fear over a loss of control:** Despite investors retaining control of their BR shares, IHT planning suffers reputationally from being associated with gifting - clients may (incorrectly) assume that estate planning discussions always involve them giving away assets.

4. **Fear of unknown future expense:** Linked to a loss of control, some clients might wish to hold capital back in case they need assets to pay for care, extended retirements, or family-related costs in the future. As mentioned before, BR allows clients to retain control, and therefore access to funds, should it be required, to pay for unpredictable future expenses.

5. **Not wanting to discuss money with their loved ones:** As will be explained, discussing money or death with the family can be awkward, and clients might resist bringing in other members of their family, who are likely to be affected by the decisions your clients make.

6. **Not wanting to spoil the next generation:** Depending on the client, there may be a fear that the next generation might not be ready to receive a reasonably large windfall - that they might either squander it, or that making their own way is an important life lesson.

It is understandable that a younger client in their 40s might not see the immediate value in engaging with estate planning. Unless they have an underlying health issue, they can reasonably expect to live for another 30 to 40 years. IHT planning, in this case, would seem far from the most urgent issue in how to use their wealth. However, certain life events can prompt more awareness of the importance of planning.

Opportunities to engage with the next generation

Advisers can position themselves as a family adviser, providing value to clients and their children by offering advice at various life stages and adding estate planning considerations as they become relevant. For example:

FIRST CHILD

What does the client want to build and leave to their children?

NEW BUSINESS

What are the long-term income ramifications vs staying in a traditional job? How can financial advice help offset potential cash-flow issues and keep plans on track for children?

RELATIONSHIP BREAKDOWN

How can potential legacies be safeguarded for the intended individuals?

Another example could be a client in their 60s. They may be starting to give more serious consideration to paying for their retirement. If they are in good health, they may want to use their capital to live life to the fullest, or they may be concerned about paying for future care costs, as the reality of old age begins to dawn on them.

Following the pandemic, savings and investments business Prudential asked over 1,000 people from a variety of ages: *"If you were to gift part of your inheritance early, what concerns might you have?"* Perhaps unsurprisingly, a loss of control was the top answer:

1. *I might need it in the future*
2. *They might squander it*
3. *Lack of control over their spending*
4. *They should make their own way in the world*
5. *Recipients having to pay tax*
6. *Nothing would prevent me*
7. *Not sure*
8. *I've already gifted them money*

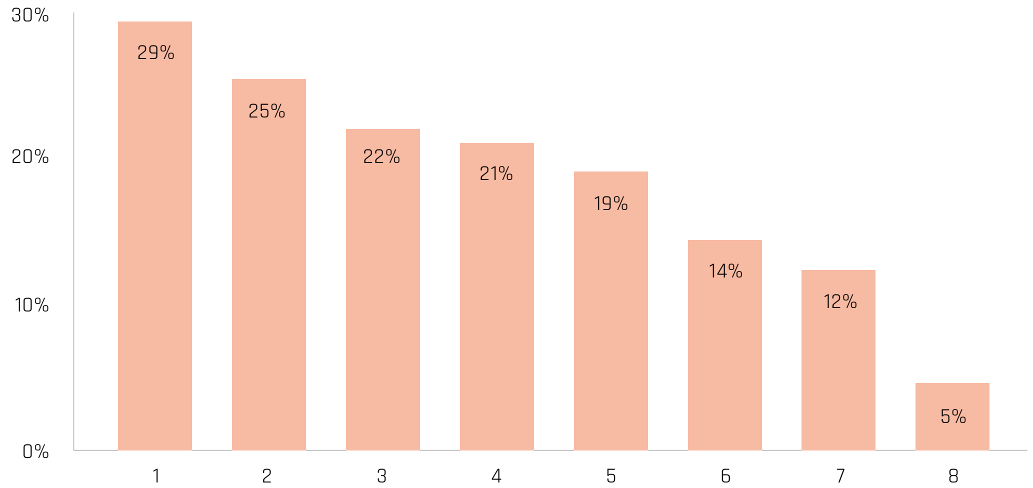
PREPARING THE NEXT GENERATION

One of the concerns that may be raised by clients when discussing IHT planning is a fear the next generation might fritter the money away, or not be able to cope with a sudden influx of wealth.

Unless used in conjunction with trusts, BR assets generally only transfer over at time of death. Therefore, this is likely to be more relevant for trusts and gifting. However, it may still be a concern for many clients and come up as part of a wider conversation around estate planning.

Preparing the next generation is actually a reason for discussing an inheritance sooner rather than later. Not discussing an inheritance may see friends and family come into money unexpectedly. Bringing them into the conversation earlier will give them time to acclimate to the idea of a future windfall. If the client's investments have been made with long-term goals in mind, it will ensure the inheritor will understand these long-term goals.

"If you were to gift part of your inheritance early, what concerns might you have?" Top answers



SOURCE: PRUDENCIAL, FAMILY WEALTH UNLOCKED, 2021

For example, if a client has invested a portion of their capital into a fund with a sustainable or positive impact investing focus, and wishes to use this money to help the planet, it would be worth ensuring that beneficiaries understand this so they can continue to honour these wishes. There are a number of BR funds with potentially matching objectives available.

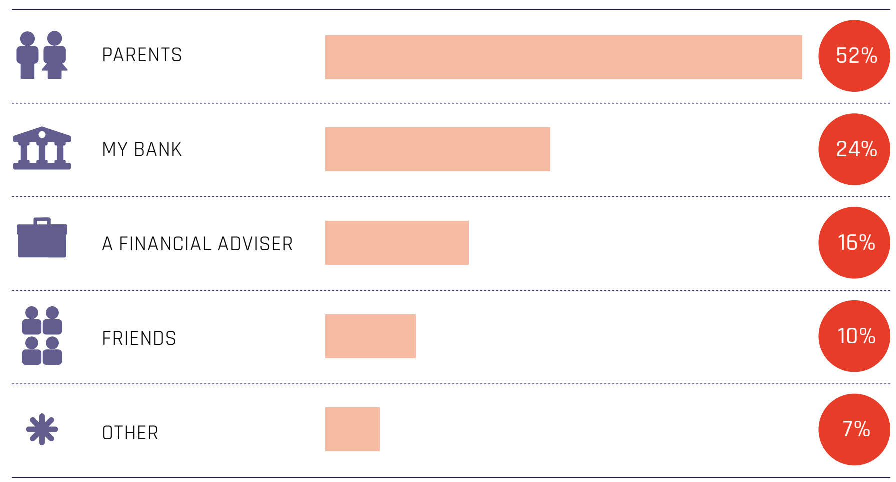
Another way to look at this is for the client to take account of the risk profile and investment objectives of the eventual inheritors when they are considering a BR investment. Since BR investing is ultimately designed to benefit the next generation, there is merit in this. It is also quite possible that inheritors with a particular interest in the underlying investment sector may be more likely to retain and manage it, rather than immediate divestment. Not only is this sensible from the point of view of a longer term investment horizon, but it would eradicate the costs of selling shares and potentially reinvesting into something of more interest to younger generation inheritors.

Again, this could make a BR investment with an ESG-related focus more appropriate, although any other factors that impact the client's own needs, such as requirements for access to the cash invested during the client's lifetime, should not be forgotten.

A 2014 study by BNY Mellon found that millennials are far more likely to seek advice on financial planning from their parents than any other source - perceiving them as a trusted and experienced source of information.

In the case of handling IHT, this means many millennials will be dealing with a financial windfall, grief and the loss of their most trusted source of financial advice all at the same time. Therefore, introducing them to the idea of a financial adviser (possibly one trusted by their parents), while they still have a parental support system would help them in the long run.

MILLENNIALS RANKING OF SOURCES OF FINANCIAL ADVICE, IN ORDER OF WHICH THEY WOULD APPROACH FIRST:



SOURCE:BNY MELLON, THE GENERATION GAME: SAVINGS FOR THE NEW MILLENNIAL, 2014)

WINNING THE NEXT GENERATION

Linked to this, but from a financial adviser's point of view - if a financial adviser only does business with a single person, when that person dies there is a good chance they will simply lose a client.

Approximately two thirds of children do not retain their parent's financial adviser after they receive an inheritance. As noted, this may be at a time when they could really benefit from qualified financial advice most.

While this leaves those who have come into a financial windfall potentially ill-equipped to deal with their newfound wealth, it also means financial advisers face a constant erosion of their client base, and need to spend more time and resources to win new business.

Involving a client's family in ongoing discussions around estate planning from an early stage may help bridge the gap between generations, so the children do not leave the financial adviser as soon as the parent dies. Discussing the concerns and interests of the next generation, including how they would use funds that they might inherit could be doubly beneficial; allowing advisers to understand and engage with the objectives of the next generation, while also offering useful pointers to clients who are happy to make BR investments that align with them.

MISSING THE WINDOW

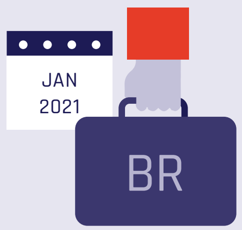
Gifts require seven years of gradual tapering before being entirely free of IHT, and gifts made within three years of death incur full IHT at 40%. However, the taper only applies to lifetime gifts totalling more than the nil rate band.

A BR investment does not qualify for IHT relief until two years after the investment is made (unless the capital was used in another BR investment within three years prior).

Time is money

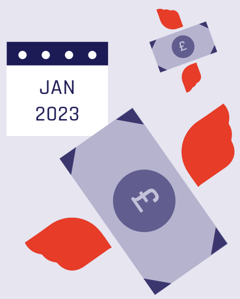
With c.10% of investors not meeting the two year BR qualification period, the timing of the original investment is key to ensure IHT planning is successful.

Mr Green deferred his recommended £100,000 BR investment due to pandemic and economic uncertainty



Now more comfortable with external factors, he decides to proceed with his BR investment

During this short delay Mr Green has lost 9 months in a 24 month BR qualifying period and has extended the BR qualification date to January 2023



He has also missed out on potential returns of £2,250 - £3,375* in investment growth over the 9 months that the decision was postponed

*Case study for illustrative purposes and based on TIME's asset-backed BR service, TIME:Advance, target return of 3%-4.5% p.a. Please note that past performance is not necessarily a guide to future performance and there is no guarantee that the target return objectives of TIME:Advance will be achieved.

While a client is fit and healthy, these timeframes may seem reasonable, however the truth is if something unexpected happens, it can be difficult to pivot investment strategy quickly enough to benefit from these reliefs.

If a client waits until they are old and sick, this will increase the chances they are unable to pass on their gifts or invest in BR qualifying assets in time.

As COVID-19 has highlighted, it is always better to be prepared. BR investments, especially, although they are higher risk, allow clients to retain control of their assets and pivot to a different strategy later, but will ensure their estate has some element of estate planning in the meantime if something unexpected were to happen.

Given the current freeze on IHT allowances until 2026, IHT paid is expected to climb over the coming years. Therefore missing out on IHT relief will become increasingly painful for clients.

LPA DIFFICULTIES

To an extent, IHT planning can be relatively straightforward when the client is available to plan with. The matter gets considerably more difficult if the client loses capacity to make sound financial decisions. In these cases, an attorney may be appointed under a Lasting Power of Attorney (LPA).

If there is no LPA in place and the client loses capacity, the situation can be even more complicated, as the client will need a Court Appointed Deputy, who must apply to the Court of Protection for the role. Importantly, in these cases, the client will no longer have a say in who is appointed as, by definition, they won't have capacity.

A deputy will have additional obligations compared to an LPA - they are obliged to report to the Office of the Public Guardian each year to show how an estate is being managed. They will need to take out a security bond during each year of their appointment to protect the finances of the incapacitated individual.

An LPA will need a court order to be able to make a gift of a client's asset for IHT planning, as this is effectively giving away assets. This can take time and money.

This is generally not the case with BR investments, which leave the asset in the name of the person who has lost capacity. But it is worth noting that there may be concerns about conflicts of interest if the attorney making the investment is also a beneficiary of the estate or if the investment is deemed not to be in the best interests of the client. This might be the case if the client did not express any wishes about passing on as much as possible after their death, bearing in mind BR is considered high risk and provides IHT mitigation for beneficiaries who are likely to gain significantly more from it than the client.

A 2016 ruling over the use of BR investments and gifting of parts of an estate highlighted the importance of a client making their IHT wishes known in advance, before an LPA was brought in.

For these reasons, even if the client does not wish to make a BR investment or make a gift while younger, it is worth getting documentation in place to ensure that, if an LPA is required in the future, their inheritance wishes are already known.

More Info

For more information on the 2016 ruling over the use of BR investments and gifting parts of an estate, visit the second edition of this guide at: *https://bit.ly/estate-planning-2nd-edition*

FAMILY RIFTS

When a client leaves his or her money to friends or family, they most likely want to enrich their beneficiaries lives and not create a rift or fight over inheritances. However, with insufficient tax planning, this is entirely possible.

As people live longer, and divorce rates remain relatively high, it is not unusual for people to have more complex family structures than the traditional nuclear family. This could include parents, children and grandchildren all alive at the same time, an ex-spouse (possibly with children), as well as stepchildren from a spouse's former marriage. It may include a separated spouse who is still technically married, and long term, unmarried partners.

In these cases, it is vital a client knows who they want to leave what to and ensure this is documented in a will, or potentially face leaving parts of the estate to people they do not wish to.

As families grow more complex, it can be difficult to keep wills up to date, and therefore it is important that estate planning is a regular part of conversations.

For example, while there were 640,370 live births in 2019, there were 108,421 deaths. Each of these cases may have required one or more will to be updated.

Despite this, a 2019 survey by Phoenix Group found that over 60% of people had not reviewed the recipients of their life insurance policy, critical illness cover, personal pension, income protection or redundancy cover policies since they were set up.

Over half of people didn't realise their pension could pass on to the person named on their pension policy documents, rather than who is named in their will.

In other words, there is a good chance clients' estates may not be kept up to date.

And where there is disagreement, history has shown people are willing to face lengthy, expensive legal battles in order to ensure they get what they deem fair from an estate.

Direct Line has found that almost a quarter (24%) of people would be willing to go to court to dispute the wishes in a will, if they disagreed with the division of an estate.

Direct Line estimated Britons spend over £160,000 each year on probate fees alone, before taking into account legal fees - which can often reach huge figures.

Rules of intestacy

Despite a common belief that if one half of a marriage dies, the other half of the marriage would automatically inherit the entire estate, this is not necessarily the case.

If a client dies without a will, and has surviving children, grandchildren or great grandchildren, and the estate is valued at over £270,000, their married partner will inherit all assets (including property) up to a value of £270,000, and all the personal possessions, whatever their value. They will inherit half of the remaining estate, with the other half divided equally among the surviving children.

Note, the children do not have to be from the current marriage.

INITIATING A CONVERSATION, WHERE TO START

It is important to have these conversations with clients while the client is relatively healthy, and there is sufficient time for the IHT plans to come to fruition. In order to achieve this, it is likely the financial adviser will have to broach the subject, rather than wait for the client to do so.

> *60% of 45-55 year olds do not know if their investments would be subject to inheritance tax.*
>
> **BARCLAYS WEALTH MANAGEMENT, 2021**

Each client will be different, however there are a few broad approaches to consider:

Use recent events or your client's life events as a conversation starter

The recent pandemic has brought about an acute sense of awareness of our own mortality, one that is unlikely to fade out of the collective memory anytime soon. For some, the global and daily reports of death numbers will unfortunately have triggered death anxiety. This is the fear and panic felt when an individual becomes acutely aware of, and apprehensive about dying and death.

Death anxiety can make some clients even more unwilling to take action regarding anything associated with their own death. But it can also be a driver for taking back control, feeling prepared and planning a suitable legacy, both financial and non-financial.

This could make now an ideal time to broach the topic of estate planning.

For example, will-writing company Farewill claimed to have seen a 267% increase in the number of people making online and telephone wills in 2020 compared to 2019.

Even beyond mortality, the virus has helped to highlight the importance of being prepared. Over the course of 2020 and the start of 2021, thousands of people found themselves stranded abroad unexpectedly - sometimes for months.

As a result, many families have been isolated from one another for a prolonged period of time - for example if a family member lives abroad, or even in a different part of the country, they may not have physically seen each other in over a year. At the same time, many families embraced technological means to communicate online. This technology has facilitated more family group conversations around life plans, and may have created a more open environment to discuss sensitive matters, such as legacy wishes.

Clients may experience major life events which trigger them to thinking about their own mortality and the need to put their affairs in order. For example a health scare or the passing of a family member or friend. These events, as sad and distressing as they might be, serve as good triggers to open the conversation with your client around later life planning.

This could act as a conversation starter into wider estate planning, including if they have thought about how they wish to structure their inheritance, and if they would be keen to initiate some form of IHT efficient investments or gifting.

EXAMPLE CONVERSATION STARTERS:

How did you and your family cope with lockdown?

How have things changed for you over the last year?

If you could do one thing to make life easier for you or your family, what would it be and why?

How do you see your ideal future and that of your family?

I know it's been a tough year, what are your priorities now?

How do you see things changing in the future?

How do your kids/ family feel about the future?

What's most important to you and your family?

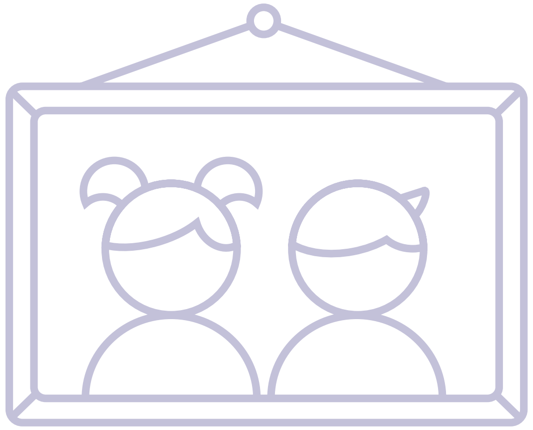
What's keeping you up at night right now?

What financial goals do you have for your kids/family?

LEGACY PLANNING

Though very much connected to estate planning, legacy planning is not just about increasing the financial wealth that clients hope to pass on to future generations. It also encompasses preparing your family for the wealth they will receive by putting in place a wealth for life plan for them. This will involve less tangible goals to combine values and wealth in the creation of a lasting legacy.

Some more general questions when discussing and differentiating personal and financial legacies might be:



PERSONAL

- *How do you want to be remembered?*
- *What are your defining moments?*
- *How do you want to inspire others?*
- *What have you yet to achieve in life?*
- *What impact do you want to have on the world?*

FINANCIAL

- *If you died today, what arrangements would you have failed to take care of?*
- *How do you see your financial legacy enriching the lives of family and friends?*
- *What wider impact woud you like your financial legacy to have?*

UNDERSTAND THE MOTIVATION BEHIND THE PLANNING

What does the client want to achieve from their planning? For some, it might be to ensure they can live comfortably for the rest of their lives. For others, it might be about making sure they can support their family. Some might want to ring fence savings for security against the unknown.

Whatever clients' motivations, it is important to understand money can be an emotional subject, especially when it comes to inheritance. This is about their life's work and their legacy, and how they want to shape it.

Understanding this will be key to understanding what form of estate planning will work best for a client. If they are worried about retirement and care costs, BR might be an ideal planning route for them, as it allows them to retain control of their assets, meaning they can draw from it later in life if required, while still building wealth for themselves or for a legacy. For clients concerned about the next generation, some form of regular gifting (using the annual allowance) in combination with some BR investments might make more sense.

Understanding this will allow you to approach these conversations in a more positive light.

CONSIDER THE WHOLE FAMILY

One mistake advisers sometimes make is to consider solely the nuclear family - the client, plus any spouse and children.

Today it's very common to have a generation above, as well as two generations below. Therefore, it's worth looking at the whole family tree - above and below, and potentially including siblings, nieces and nephews. Remember, a client may well be expecting to inherit in the future, in addition to leaving a legacy to their own beneficiaries.

If clients have living parents, it is worth investigating if the parents currently have a financial adviser, and what their estate planning looks like. It might result in a new client, if they do not have one. If the original client is due an inheritance in the future, it is likely this money will carry significant emotional cache to them, and might alter how they view their own estate planning.

It is important to remember this will likely not be purely a transactional agreement for them; they are discussing their loved ones. Therefore talking about a future windfall should be done with this in mind, and it is important to be sensitive to their emotions.

It might be worth asking if the client wishes to have other family members join for a meeting. Thanks to the recent lockdowns, more of the population are confident conducting meetings via an online video call, so distance may no longer be a barrier.

It is also worth remembering that families change over time. If a client has adult children, for example, they might become grandparents, or witness divorces among the younger generation. Simply asking about the family might lead to a conversation about how events have progressed, and in turn a need to update their estate planning.

EXAMPLE CONVERSATION STARTER:

- *Do you know if your children are in your parents' will?*

EMPHASISE THE RETENTION OF CONTROL

As noted in the 'Client disengagement' section, one key worry for clients is often around a loss of control of their assets. Even if they intend to leave everything in a tax efficient manner to their loved ones, there is a fear around giving away large portions of an estate - what if they need it for later life care?

This is where BR can be such a powerful tool in starting the conversation. Unlike gifts, the client will retain control of the assets, and can sell their BR shares if they need to.

What's more, as BR funds are investments, they are managed with the intention to grow the pot. While they can go down as well up, this is true of any investment. Investing in a BR fund could see a client's wealth grow, then offer ongoing access to their capital, and ensure at least part of their wealth can be passed down IHT free if something were to happen to them.

EXAMPLE CONVERSATION STARTER:

- *How do you see your financial legacy enriching the lives of your family and friends?*

LEVERAGE PROFESSIONAL CONNECTIONS

The regulators across the professions are keen for solicitors, accountants and financial advisers to work together to provide more joined up services and better outcomes for clients. Beyond simply pleasing the FCA, there are opportunities here for financial advisers to grow their client bases and the estate planning opportunities within them.

Both solicitors and accountants have dealings with their own clients at times when financial advisers with an estate planning and BR offering would be in a position to add significant value.

All three professions can have a symbiotic relationship, providing each other with referred clients who are considering what they will leave behind and their beneficiaries who are earlier in that journey.

From the financial adviser’s point of view, this might also lead to an introduction to the next generation of a client's family. If the deceased left a number of investments, the financial adviser will be the best person to discuss why these investments were made, and provide advice over what actions to take, once the inheritance has been made.

EXAMPLE CHECKLIST FOR POTENTIAL PARTNER FIRMS	
THE FIRM HAS A COMPLEMENTARY BUSINESS MIX OR CLIENTELE	✓
THE FIRM HAS A SIGNIFICANT WILLS DATABASE, OR A SIGNIFICANT PROPORTION OF OLDER CLIENTS	✓
THE MAIN CONTACT PARTNER OR FEE-EARNER IS INFLUENTIAL IN THE FIRM	✓
YOUNG GO-AHEAD PARTNERS HAVE A SIGNIFICANT VOICE IN THE FIRM	✓
THE LOCATION AND SIZE OF THE FIRM ARE SUITABLE TO A RELATIONSHIP	✓
NO OTHER IFA REFEREES ARE ENTRENCHED	✓
MOST OF THE OTHER PARTNERS ARE AMENABLE	✓
THE FIRM'S COMPLIANCE OFFICER FOR LEGAL PRACTICE OR EQUIVALENT, UNDERSTANDS THE NEED FOR DUE DILIGENCE	✓
THE PARTNERS HAVE AGREED TO RECEIVE A PRESENTATION	✓
THE FIRM IS RECEPTIVE TO A CORPORATE RELATIONSHIP	✓
THE FIRM IS WILLING TO ENGAGE IN JOINT CLIENT MARKETING	✓

Thought Leadership

COVID CONCERNS LEAD TO INCREASE IN WILL AND LATER LIFE PLANNING

TISH HANIFAN

FOUNDER AND JOINT CHAIR OF THE SOCIETY OF LATER LIFE ADVISERS

The pandemic has heightened uncertainty amongst the public with many now more fearful about the future. This has caused more people to consider matters around later life which would otherwise often be put to the back of their minds, including both the prospect of needing care, with the related costs, and wills and estate planning.

A survey in September 2020 by SFE [national association of independent lawyers specialising in legal services for older and vulnerable people] showed that 44% of those who didn’t have a will thought they should make one. The result is more clients seeking holistic advice around putting their affairs in order.

Market value growth in the Wills, Trusts and Probate market was estimated at 4.3% in 2020 and is forecast to grow at an average of 4% a year from 2020 to 2023 (UK Wills, Probate & Trust Market 2020 report).

For those with potential IHT liability, advice inevitably includes discussions around the balance between making tax efficient gifts and the need to be able to use their assets should circumstances change in the future. This is where the integration of legal, tax and financial advice is so important in achieving the right outcome for the client. There are numerous ways in which the combined expertise of the professions can work to the client’s advantage.

Increasingly solicitors are moving from being transactionally based to being part of a ‘hub’ of advisers who work with clients to look at providing the retirement and estate planning they need. This is especially true where there is the need for multi-generational advice which by its very nature requires a long-term view combined with ongoing review across a range of disciplines.

One of the keys to nudging clients to make a will is to be skilled at having the right kind of emphatic conversations [sometimes referred to as ‘soft skills’]. Matters around inheritance are rarely purely financial or legal; they involve complex emotional issues around family dynamics, obligations and even conflict. When professional advisers work together, they can identify the adviser in the best position to raise these sensitive issues with the client.

The legal knowledge of a solicitor combined with the financial planning of IFAs and the business and family insights of accountants is a powerful combination for the client, especially as the most effective solutions might not be instantly obvious.

Covid has certainly proved how building a relationship with the professionals who understand a client's intentions, intended legacy, their assets, relationships and attitudes can be crucial both when planning ahead and when the unexpected happens.

Importantly it can both give families and beneficiaries peace of mind during the most difficult of times and build professional networks of specialist later life and estate planning.

Solicitors and financial advisers

WILL DRAFTING

Private solicitors who work with clients in drafting wills could be a good source of people ready to discuss estate planning. If a client is discussing a will, chances are they're thinking about their next of kin, and therefore would be amenable to discussing how to ensure their estate is IHT efficient.

PROBATE

While firms other than solicitors, including accountants, can now undertake most probate activities, legal firms, particularly those that have advised the deceased on their will, are usually probate service providers. There are also still some complex probate issues that only they can deal with. Where a financial adviser's client has died, the financial adviser can provide invaluable support to the family going through probate by having all the relevant financial information relating to the deceased client's estate and assisting with IHT calculations. Probate can also be a route to beneficiaries in need of financial advice, whether the deceased was the financial adviser's client or not. The affairs thrown up by the death of someone close can be a strong driver for beneficiaries to explore their own estate planning.

CROSS OPTION AGREEMENTS

Since this is exactly the type of agreement (regarding arrangements for the sale of shares in a company, including for succession planning) that can facilitate BR qualification of the shares of an otherwise BR-qualifying company, the time of putting such an agreement in place would seem to be the ideal time for a financial adviser to discuss what BR could do for a business owner.

LASTING POWER OF ATTORNEY (LPA)

Although there is no requirement to use a solicitor to set up an LPA, many solicitors are, of course, well-placed to put them in place. An individual interested in this service is clearly looking to the future, potentially for the benefit of their family, to spare them difficulties if they lose capacity. It's also not uncommon for children of the subject of the LPA to be the ones involved in setting it up. Again this could be exactly the right time for financial advisers to make contact with them.

Accountants & financial advisers

FINANCIAL PLANNING

Accountancy firms can have general conversations with clients about tax planning investments, but can't recommend a specific investment. Accountancy firms with a Designated Body Licence (DBL) can work collaboratively with financial advisers, including evaluating a financial plan put together by a financial adviser. Lifetime planning can very much spill over into estate planning, particularly where tax efficient investments are being discussed.

ESTATE PLANNING

Accountants will probably have long-standing relationships with business owners, having regular meetings with them to stay on top of business issues. So they may have good knowledge of the client's family, health and what they are looking to achieve as well as an understanding of what financial advisers can bring to the table.

PENSIONS PLANNING

For pensions accumulation, an accountant with a DBL can implement investment planning with an appropriately authorised financial advisory firm, but the accountant cannot recommend a specific personal pension contract, which is part of the remit of an authorised financial adviser. Not only do accountants need the involvement of financial advisers here, but pensions also open the way for discussions on other later life and estate planning.

EXITS AND REPLACEMENTS

Accountants who have clients looking to exit their business tax-efficiently are very likely to benefit from the expertise financial advisers can bring in recommending replacement BR assets. This could lead to broader conversations about what else BR can achieve and any other estate planning needs.

Solicitors, accountants and financial advisers

SURVIVING SPOUSE/BEREAVED RELATIVES

They may require advice on trust tax and property, annuities and provision for dependants from solicitors. And a good accountant will review the assets left by the deceased to identify any unexpected or unnecessary IHT that will be due on the death of the surviving spouse. These are clear opportunities for additional estate planning.

LATER LIFE AND RETIREMENT PLANNING

This might involve the client's accountant giving a reality check on how much wealth can be given away or discussing the legalities of property gifts with their solicitor. Of course, any time when a client is looking towards later life is a potential opportunity to focus their thoughts on what happens at the end of that life and how any remaining assets are safeguarded and split.

LONG-TERM CARE

Long-term care is another later life topic that bears upon a number of areas: legal issues around capacity, an accountant's viewpoint on affordability and financial matters connected to family and also how much a client might be in a position to leave to loved ones. There are potential planning considerations around how to continue to grow funds, while retaining access to meet unexpected costs - all pointing to the possible suitability of BR.

More info

For more information on the steps to engaging with professional connections, see the second edition of this guide at *https://bit.ly/estate-planning-2nd-edition*

Closing Statement

DON'T ASSUME KNOWLEDGE, SHARE KNOWLEDGE

DAVE SEAGER

FORMER MANAGING DIRECTOR AND NOW CONSULTING ADVISER TO SIFA PROFESSIONAL

This 3rd edition of Intelligent Partnership's excellent publication, as well as continuing to highlight the estate planning virtues of Business Relief, has a theme. That theme as I hope you have noted, is the potential cost of deferral.

Whilst acknowledging some of the many barriers' clients might present when you endeavour to broach the subject, what also occurs to me is the barrier and hence, further cause for delay, that might be imposed by a lack of knowledge. This publication, along with others such as our own 'Handbook of Trustee Investment' will enhance the competence and confidence of advisers seeking to advise in this arena, but the advisory community should not be working alone.

At SIFA Professional we have for years sought to bring the advisory and legal communities closer, and it is of course equally important to build real partnerships with the accountancy community. When it comes to using the advantages of Business Relief, or indeed other tools at the disposal of qualified financial planners, it is therefore vital that, as a community, we seek to educate our professional connections on these benefits.

We should not assume, and we are perhaps guilty of this, that our solicitor or accountancy colleagues are up to speed on the range of estate planning vehicles and where and when they can and should be introduced. Knowing what Business Relief is and even what the IHT benefits might be, is not the same as knowing about the wrappers our industry is innovatively developing to take advantage of them.

Similarly, going into a meeting with solicitors and waxing lyrical about a BR contract, a Discounted Gift trust or other product, is foolhardy. The key is to introduce a concept, explain how it works, the benefits it offers the mutual client and crucially at what stage in the discussion it, and you, should be introduced to the conversation. Ask yourself the question, why am I not receiving client referrals having done a presentation on a financial planning subject? The facts on their own are never enough, so unfortunately, it could be viewed that we are in part to blame for the 'cost of deferral'.

Solicitors, and no doubt accountants still value and need CPD. Solicitors, like you, are responsible for ensuring their ongoing competence. Therefore, serious lawyers, operating in the estate planning space with clients, should and do value genuine opportunities to enhance their broader understanding. If you are the partner offering that continual flow of knowledge, via training events, online or face to face and with publications such as this, then surely you are the partner most likely to receive the next referral and at the right stage in the advice process.

Leading on from this, a final thought on how we might mitigate the cost of deferral, is to consider joint client events with your professional colleagues, both accountants and solicitors. A joint seminar on IHT/Estate Planning at which you and the solicitor or accountant you are working with invite suitable clients, can be an excellent and information way to softly introduce concepts.

Appendix

Summary of Current IHT Regulations

The main provisions of current IHT law are described in the Inheritance Tax Act 1984 (IHTA84). To review the full Act, visit:

www.legislation.gov.uk/ukpga/1984/51/contents

Nil Rate Band and Residence Nil Rate Band Thresholds

There is normally no IHT to pay if either:

» the **value of the estate** beneficially owned by the deceased is below the £325,000 (frozen from 2021/22 to April 2016) threshold (the NRB).

» the deceased leaves everything to their spouse or civil partner, a charity or a community amateur sports club.

If the deceased leaves their home to their children in their will (including adopted, foster or stepchildren or grandchildren), the RNRB comes into play. In the 2021/22 tax year the RNRB was frozen at £175,000 per person until April 2026. But where a person died before 6 April 2017, their estate will not qualify for the relief and estates worth more than £2 million will be subject to a relief taper of £1 for every £2 by which the estate exceeds £2 million (frozen at this threshold from 2021/22 to April 2026). However, the RNRB also allows for downsizing of a property. and the transfer of unused RNRB. HMRC Guidance with examples of downsizing scenarios can be found at:

https://www.gov.uk/guidance/how-downsizing-selling-or-gifting-a-home-affects-the-additional-inheritance-tax-threshold

Unused RNRB can be passed from one partner to the other provided they are married or in a civil partnership. It's the unused percentage of the RNRB that's transferred, not the unused amount. For a breakdown of the calculation, go to:

https://www.gov.uk/guidance/inheritance-tax-transfer-of-threshold#history

Married couples or those in a civil partnership with an estate worth less than the IHT threshold can pass on any unused NRB or RNRB to their surviving spouse or civil partner. This means the surviving spouse or civil partner can have an exempt amount up to £1 million.

The rate of IHT on death is 40% on assets above the threshold and 20% on lifetime transfers where chargeable.

Life Assurance

Life assurance arrangements can be used as a means of removing value from an estate and also as a method of funding IHT liabilities, including covering IHT due on death. It should be remembered that the prospect of saving IHT should not be allowed to jeopardise the financial security of those involved.

Charity

An estate can have reduced rate of IHT of 36% on some assets if the deceased leaves 10% or more of the 'net value' (after deducting IHT exemptions, reliefs and the NRB) to charity.

Gifts

People given gifts by deceased parties might have to pay IHT, but only if the deceased gives away more than £325,000 and dies within seven years. Examples of gifts can be:

» transfers to a company or a trust (except a disabled trust). These are immediately chargeable (chargeable lifetime transfer) if the asset being transferred is worth more than the available NRB, unless an exemption applies. (Every seven years a full NRB will be available to make chargeable lifetime transfers).

» exempt gifts which will be ignored both when they are made and also on the subsequent death of the donor, e.g. gifts to charity.

» any other transfers will be potentially exempt transfers (PETs) and IHT is only due if the donor dies within seven years of making the gift (this is termed a failed PET and is subject to taper relief depending on how many years before the donor died the gift was made).

» between spouses – these are generally IHT exempt if both spouses or civil partners are either UK or non-UK domiciled.

» small gifts of up to £250 per tax year, per recipient. These are IHT exempt up to a total of £3,000 per tax year. Unused annual exemption can be carried forward to the next tax year.

» gifts in consideration of marriage made by a parent of up to £5,000 are exempt, with lower limits for other donors.

» gifts out of income are exempt from IHT. These should be habitual and must not result in a fall in the standard of living of the donor. An example would be payments of annual premiums on life insurance policies.

» family maintenance gifts such as the transfer of property made on divorce under a court order, or maintenance of a dependent relative are also IHT exempt.

» gifts to political parties benefit from IHT exemption when the donation is to a political party that, at the last election preceding the transfer of value, had at least two MPs or one seat and 150,000 votes.

» gifts for national purpose can be exempt from IHT when they pass to a new owner that is an institution that exists to preserve a collection of scientific, historic or artistic interest for the public benefit, or any library serving the needs of teaching and research at a UK university.

Trusts

Trusts will generally take assets held within an individual's estate outside the estate for IHT purposes (provided the donor does not obtain any benefit or enjoyment from the trust), reducing the size of the estate and the assets on which IHT is payable.

Business Relief (BR)

This applies to provide 100% relief where the business is undertaking qualifying activities, where the owner of the shares has owned them for two years or more. Reinvestment relief also applies.

Agricultural Property Relief

This is available on the transfer of agricultural property so long as various conditions are met. This relief is not considered as part of this guide. Specialist advice should be taken, in particular because APR takes precedence over BR.

Other Useful Information

For detailed information on HMRC's specific approach to BR, go to Section 11: relief for business property, the Valuation Office Agency's (VOA) technical manual relating to IHT. Visit:

https://www.gov.uk/guidance/inheritance-tax-manual/section-11-relief-for-business-property

Listed Shares

Check what is classified as a recognised stock exchange here:

https://www.gov.uk/guidance/recognised-stock-exchanges

Pre-clearance

Qualification is not always clearcut and pre-clearance from HMRC (as is common with EIS) is often unavailable. However, in relation to certain lifetime transfers, a business owner can apply to HMRC to see whether BR is potentially available in respect of business property. This is a non-statutory procedure and is only available in cases where there is a material uncertainty as to the status of property. For information about HMRC clearance services, visit:

https://www.gov.uk/guidance/non-statutory-clearance-service-guidance

HMRC Guidance on the Meaning of Investment for the purposes of Business Relief

https://www.gov.uk/hmrc-internal-manuals/shares-and-assets-valuation-manual/svm111160

Schedules for claiming the relief

To download form IHT400 (Inheritance Tax Account), go to: *https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/622901/IHT400_06_17.pdf*

To download schedule IHT412 (Unlisted stocks and shares, and control holdings), go to: *https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/774315/IHT412.pdf*

To download schedule IHT413 (Business or partnership interests and assets), go to: *https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/705300/IHT413_0118_online-v2.pdf*

How did you do?

Learning Objectives

Describe the rules and practicalities that govern the relief.

- Covered in sections 2, 3 and 7

Identify the main structures through which BR investment can be achieved in practice in various estate planning scenarios, including in conjunction with other estate planning options.

- Covered in sections 3, 5 and 6

Explain how the deferral of estate planning can negatively impact tax-efficient legacies.

- Covered in section 8

Define the main drivers for estate planning and Business Relief investment

- Covered in sections 1 and 2

Determine the right circumstances under which Business Relief can be used and how.

- Covered in sections 4, 5 and 6

Steps After Reading

Claim your CPD

This guide is accredited for structured CPD by the PFS and CII and readers of the guide can claim one hour of CPD for each hour spent reading the guide (excluding breaks), up to a total of four hours. In order to claim structured CPD, readers will need to complete a short online test.

Go to *intelligent-partnership.com/cpd* for more details on claiming CPD.

Provide Feedback

Intelligent Partnership actively welcomes feedback, thoughts and comments to help shape the development of this guide. This guide is produced on a regular basis.

To give your feedback please email:

Publications@intelligent-partnership.com

Participation and feedback are gratefully received

Support Tools and Resources

BR Service Managers

www.time-investments.com

Documentation, research, briefings and seminars, often CPD accredited, are regularly supplied by service providers. Advisers must make their own objective service comparisons, but in terms of education and relationship building opportunities, provider support can be very useful. For example, TIME Investments offer an IHT calculator that allows you to calculate your client's potential IHT liability in five easy steps at:

www.ihtcalculator.com

Market Research and Due Diligence

www.micap.com

Independent materials are also available to make researching the whole-of-market and analysing due diligence less daunting. These include MICAP, Tax Efficient Review and Tax Shelter Report which each offer independent research and reviews, with MICAP also providing an online platform for product comparisons and an audit trail of investment research.

Industry Bodies

www.sifa.co.uk

www.societyoflaterlifeadvisers.co.uk

www.step.org

www.thepfs.org

www.cii.co.uk

powered by intelligent partnership

About Intelligent Partnership

Intelligent Partnership is the UK's leading provider of insights and education in the tax advantaged and alternative investments space.

We provide a suite of materials to keep advisers and industry professionals up to date with the latest developments and on course to meet their training and CPD targets.

Our range of engaging, accessible and CPD accredited resources includes:

REGULAR INDUSTRY UPDATES

Free, award-winning series including EIS, VCT, BR and AIM Updates offering ongoing observations and intelligence, the latest thoughts and opinions of managers and providers and a comparison of open investment opportunities. Visit: *www.intelligent-partnership.com/research-format/publications*

ACCREDITATIONS

A series of e-learning courses for regulated advisers, paraplanners, accountants and solicitors that require a recognised level of knowledge and understanding in all areas of Tax and Estate Planning. Visit: *www.intelligent-partnership.com/e-learning*

EVENTS

Intelligent Partnership produces regular showcases bringing together advisers and product providers, awards, including the Growth Investor Awards and conferences including Intergen which considers the wealth, tax and estate planning needs of every generation.

For information about an event near you, go to:: *www.intelligent-partnership.com*

WEEKLY INVESTMENT BRIEFINGS

A snapshot of the latest articles, commentary and market data for financial services professionals, in easy-to-read briefings on Tax Efficient Investments and CPD for finance professionals. Visit *https://intelligent-partnership.com/investment-briefing-sign-up/*

PROFESSIONAL GUIDES

Unlocking the practical and regulatory aspects of various areas across the tax-advantaged and tax planning spaces including estate planning and Business Relief, our guides for advisers, lawyers and accountants are updated annually to provide handy, accessible and everyday resources. Visit: *www.intelligent-partnership.com/research-format/publications*

About TIME Investments

TIME Investments is one of the most experienced Business Relief managers and our team boasts a wealth of experience and a long track record of successfully mitigating Inheritance Tax for our clients. We currently manage over £1 billion of BR qualifying assets (as at 31 January 2022) on behalf of more than 6,000 private investors and business owners seeking to maximise the financial legacy they leave for future generations.

We have received consistent recognition for our customer service, winning a number of industry leading awards including five stars at the 2021 Financial Adviser Service Awards. Our BR services have also received recognition and we have been named 'Best Business Relief Investment Manager' four times at the Growth Investor Awards for our asset-backed and AIM BR services, most recently in 2021.

Financial Adviser Service Awards ★★★★★

GROWTH INVESTOR 2021 | AWARDS — WINNER BEST BR INVESTMENT MANAGERS (UNLISTED)

How our investments are making an impact

Renewable Energy

Over **£500 million** invested across four renewable energy technologies

145,000
UK homes powered each year, the equivalent of powering Gloucester or Cambridge for a whole year

127,000
tonnes of C02 offset each year, the equivalent of planting over 64 million trees

Property development
Over 650 new homes built

Forestry
Over 13,000 acres of sustainably managed forests across the UK.

SOURCE: TIME INVESTMENTS, 31 DECEMBER 2021

TIME INVESTMENTS

Our Business Relief Services

We offer three IHT services that invest in BR qualifying trades and we are delighted that so many advisers have already put their faith in us, on behalf of their clients.

	TIME:ADVANCE	TIME:CTC	TIME:AIM
	Private investors	Corporate investors	Private investors
	Net target return 3% - 4.5% p.a.	Net target return 3% - 4.5% p.a.	N/A
	Discretionary managed portfolio	Bespoke IHT service	Discretionary managed portfolio
	Asset backed businesses	Asset backed businesses	AIM quoted companies
	Diversified across 8 trades	Predominantly invested in property lending	Diversified across 30 AIM companies

Get In Touch

We are dedicated to supporting the adviser community and have one of the largest teams in our sector. We offer full regional coverage, with dedicated points of contact, and an experienced team of 12 internal BDMs offering telephone support. Our team is always on hand to support advisers and paraplanners.

Please find your local relationship manager by entering your postcode at: time-investments.com/BDM

020 7391 4747 time-investments.com questions@time-investments.com

Business Relief is flexible enough to accommodate income and growth, and to work within complex later life and IHT planning. It works quickly and many businesses will qualify without the owners even being aware. In these circumstances, a financial adviser with BR knowledge could make an immediate and substantial impact".

GUY TOLHURST

INTELLIGENT PARTNERSHIP