unicorn
ASSET MANAGEMENT

AIM INHERITANCE TAX EXPLAINED

For professional clients only.

WHAT IS IHT?

Inheritance Tax (IHT) is a **tax on your client's estate (property, savings and possessions)** once they have passed away.

The funds from your client's estate are used to pay IHT to HMRC. HMRC received **£5.2 billion** in IHT between 2019-2020.

Your pension **does not** form part of your client's estate and is exempt from IHT.

Upon a person's death, the Government **calculates the value of their estate**, subtracting the person's debts from how much the estate is worth.

A single person currently has a **nil band rate allowance of £325,000.** This means IHT is due if the value of the estate is above this amount.

A married couple (under UK Law) have a combined **nil rate band allowance of £650,000.** IHT is due if the value of the estate is above this amount.

If you leave your home to your children (including adopted, foster and stepchildren) or grandchildren **the nil rate band can increase to £500,000.**

Any amount which exceeds the nil rate band is **taxed at 40%.**

When someone **receives an inheritance** after someone passes away, the beneficiary may then have to pay IHT.

Find out more: 020 7071 3940 | unicornam@lgbrcapital.com | www.unicornam.com

unicorn
ASSET MANAGEMENT

WHO PAYS IHT?

- Your client's IHT is arranged by the person dealing with the estate (called the 'executor' if there is a will).
- People your clients give gifts to might have to pay IHT, but only if they give away more than £325,000 and pass away within 7 years.

WHO IS EXEMPT?

- Beneficiaries of estates belonging to members of armed forces / emergency services if the person dies in the line of duty or from injuries resulting from their duties.
- Beneficiaries of estates (incl. gifts) valued at £325,000 or less - this is taxed at the nil rate of 0%.

WHAT IS BUSINESS RELIEF?

- Business Relief (BR) allows family businesses to be passed from one generation to the next without incurring an IHT liability. From 1996 all investors in qualifying trading companies, no matter how small their shareholding, receive 100% BR.
- Not all companies can qualify for BR. The key requirement is that a company must be a trading business as opposed to an investment business (e.g. a company that simply holds cash, property or other investment assets).
- Another requirement is that the company must be unlisted or listed on junior stock markets, such as AIM (visit HMRC's website for more details).
- Provided a company qualifies for BR, an investment in its shares will benefit from 100% IHT relief if you have held them for at least two years and at the time you pass away.
- BR qualification will be considered by HMRC on a case-by-case basis under the laws that apply at the time of death.

INVESTING IN THE UNICORN AIM IHT & ISA PORTFOLIO SERVICE

Unicorn Asset Management have been specialists in AIM investing since 2001. The Unicorn AIM IHT & ISA Portfolio Service will invest into a carefully selected portfolio of AIM-listed companies that have passed Unicorn's proven and rigorous investment process.

The Service is designed to mitigate IHT liability, aiming to offer investors capital growth and income alongside BR qualification after 2 years. An independent industry expert reviews the BR qualifying status of each company. The Service can be accessed direct or via ISA portfolios and certain platforms.

ISAs & IHT

- Unlike your client's SIPP, their ISAs are not free from IHT and form part of their estate.
- If they are passed to their surviving spouse or civil partner on their passing they will not be subject to IHT due to the **Spousal Exemption.**
- If an ISA is left to any other beneficiary, or forms part of the residue of an estate left to non-exempt beneficiaries, IHT is potentially payable on the value of the ISA on the date that the holder passes away, depending on the value of the whole estate.

unicorn
ASSET MANAGEMENT

A BESPOKE INVESTMENT SERVICE

Investment advisers are able to tailor the Unicorn AIM IHT & ISA Portfolio Service to best suit their individual client's IHT needs. Options include:

1. Choosing from an income focused or growth focused portfolio
2. Choosing a responsible investment (ESG) overlay
3. Reinvesting dividends for growth or paying them out as income

KEY BENEFITS

Simplicity
No need for any complex legal structures or medical underwriting.

Speed
Once your client has held shares qualifying for BR for a minimum of two years, their value will be exempt from IHT. More traditional forms of IHT planning (gifts or trusts) can take up to seven years to reach full exemption.

Control and Access
If your client's personal or tax circumstances were to change (e.g. to pay for care fees) they have access to their investment at all times, unlike trust planning or gifts.

Income and Growth Potential
The AIM market is home to a variety of companies that offer the potential for capital growth and/or dividend income.

Tax Benefits
A portfolio of qualifying AIM-listed companies invested via an ISA wrapper will not only mitigate an IHT liability after a two year holding period but will also attract no further income tax on dividends received and no capital gains tax on capital growth.

KEY RISKS

Capital at Risk
The value of your client's investment can go down as well as up and they may not get back their initial investment amount. Investment in companies listed on the AIM Market normally involves greater risk than those listed on the main London Stock Exchange and their share price movements tend to be more volatile.

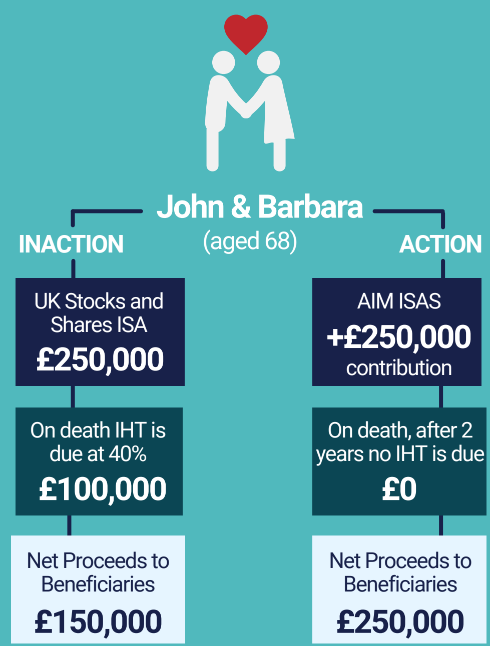
Tax Reliefs
Tax treatment will depend on your client's individual financial situation and tax rules are also subject to change. The availability of tax relief also depends on the Service's investee companies maintaining their qualifying status.

Liquidity
AIM-listed shares are less liquid than shares listed on the main London Stock Exchange. Therefore, in order to obtain the best price, it may potentially take a longer period of time to liquidate your client's portfolio.

TAX PLANNING | CLIENT SCENARIO

The Problem

- John and Barbara are both 68 and married. Their estate has used up their nil rate band.
- They are committed ISA investors, always maximising their annual contributions and have built up ISA portfolios of **£250,000** each. They understand equities can be volatile but are experienced investors.
- John has had some recent heart problems so they have started to think about inheritance tax.
- They assumed ISAs were "tax-free", including IHT-free until their adviser told them otherwise.



The Solution

- John and Barbara can continue to invest **£20,000** a year into ISAs but redirect their contributions to AIM IHT ISAs (IHT-free after 2 years).
- 3 months later John and Barbara decide to transfer their existing **£250,000** ISA investments.
- They continue to benefit from equity growth from investing in UK companies while also reducing their IHT bill.

Find out more: 020 7071 3940 | unicornam@lgbrcapital.com | www.unicornam.com

unicorn
ASSET MANAGEMENT

POWER OF ATTORNEY CASES

A Power of Attorney (POA) is a legal document which that allows someone to make decisions for another person or act on their behalf in specified or all legal and financial matters if they are no longer able to or no longer want to make their own decisions.

- Power of Attorney cases were at c. 569,00 in the UK (from April 2020 - 2021)
- Cases have increased gradually, despite a drop of 30% from the previous year given the pandemic
- One in three people over 65 will develop dementia
- And not only for an ageing population - every 90 seconds someone is admitted to hospital in the UK with an acquired brain injury
- The average care home fee in the UK is circa £600 per week

POA | CLIENT SCENARIO

- Diane is a 75 year old widower who lives in a care home.
- She has recently been diagnosed with Alzheimer's disease and her only child Mark has been granted Power of Attorney.
- Attorney is restricted in gifting away money by the Court of Protection (trusts and gifting are therefore restricted). Mark can access for income/capital if required for his mother's care.

SOLUTION | BUSINESS RELIEF

- Mark's mother has a £1,000,000 ISA portfolio, which Mark has invested into an AIM ISA portfolio service.
- This enables Mark to retain control of the investment, while making sure that after 2 years the investment is subject to IHT at 0%.
- The AIM IHT portfolio service looks to target a natural yield of, currently, 3%* for Mark's mother of £30,000 a year to aid Mark in paying his mother's care home fees.
- In total Diane's care home fees equate to a charge of around £28,800 p/a.

*This is a target and not guaranteed, your capital is at risk.

Find out more: 020 7071 3940 | unicornam@lgbrcapital.com | www.unicornam.com