For clients

thesis
asset management

Inheritance Tax Portfolio Service

Professional
investment partners

Inheritance Tax Portfolio Service

Thesis Asset Management manages investments for a broad range of clients. Our Investment Managers are friendly and straightforward, and work closely with our clients to provide an investment portfolio to suit their individual needs and requirements. Our highly experienced team of investment experts have in-depth knowledge of financial markets, underpinned by our own detailed research and analysis.

We can support you whatever you are seeking to achieve with your investments, whether this is long-term growth, an income later in life, passing wealth to future generations, or a different objective. Understanding your needs, building and managing a portfolio for you are at the core of this. We can also offer you a range of targeted investment solutions, including our specialist Inheritance Tax efficient AIM Portfolio Service.

Why Thesis Inheritance Tax Portfolio Service?

Will you owe Inheritance Tax?

Inheritance Tax (IHT) is paid on the estate, including property, money and possessions of someone who has passed away. HMRC has seen inheritance tax receipts grow every year since 2009 (£5.01bn in 2017/18) and forecasts predict this will continue.

After years of house price growth, and carefully building assets throughout your life, you may find that you have an inheritance tax liability. The part of your estate that exceeds the inheritance tax threshold of £325,000 can be taxed at 40%, meaning that those you wish to leave your estate to, may miss out on a significant portion of your wealth.

In addition the Residence Nil-Rate Band (RNRB) applies to individuals with direct descendants who have an estate (including a main residence) that exceeds the IHT threshold of £325,000 for 2018/19. If you're giving away your home to your children or grandchildren (including adopted, foster and step-children), you may qualify for the RNRB, meaning you can gain an additional threshold before IHT becomes due on your estate. This is an additional £150,000 in 2019/20, £175,000 in 2020/21 and increases in line with the Consumer Price Index (CPI) from 2021/22 onwards.

Source: www.gov.uk/inheritance-tax

How can you mitigate IHT?

There are a number of ways that you can reduce your inheritance tax, including making a gift to a partner or family and friends, putting money into a trust, leaving to charity or taking out life insurance.

However some of these ways can be inflexible and mean that you have given away assets during your lifetime or can no longer access your wealth.

These options can therefore be unattractive for many people.

While Thesis Asset Management can provide tax guidance on your investment portfolio, we would always recommend that you seek tax planning from an appropriate professional to ensure all possible options are considered. It is important to ensure that your will is up to date with your circumstances, to take advantage of the latest tax reliefs available.

"We aim to help our clients, whether they are seeking long term growth, an income later in life, or to pass their wealth to future generations."

How can the Inheritance Tax Portfolio Service help?

The Inheritance Tax Portfolio Service is a discretionary investment management service that invests in a diversified portfolio of new and growing companies quoted on the Alternative Investment Market (AIM).

It is a straightforward way to reduce your IHT liability, without the need for complex or costly legal arrangements.

Expert managers

Our highly experienced research team work to identify and select companies that are likely to qualify for the government-approved Business Property Relief (BPR), a proven form of tax relief, in existence since 1976, giving investors an incentive to invest in trading businesses.

Shares in BPR qualifying businesses are exempt from inheritance tax after two years from purchase, provided that you still hold them upon death.

They can also be held within an ISA for further tax benefits, additionally sheltering your capital from Income Tax and Capital Gains Tax.

The service aims to maximise inheritance tax relief with prospects for capital growth over the medium to longer term, while allowing you to keep access to your money.

Illustrative IHT planning on £200,000 of a £1millon portfolio using the Inheritance Tax Portfolio Service. We have assumed the nil rate band is already used upon death.

	Estate without IHT planning	Thesis IHT Service
Initial capital	£200,000	£200,000
Initial charge	No charge	No charge
Net investment	£200,000	£200,000
Initial dealing costs, including broker costs and bid/offer spread	£520	£2,300
Annual management charge (1.2% + VAT per annum)	£2,873	£2,847
Net value of investments over 2 years, assuming 4.5% growth after costs each year*	£217,837	£215,893
Amount lost through 40% inheritance tax upon death	£85,732	£0
Dealing costs upon disposal	£3,507	£5,721
Value of portfolio passed to beneficiaries	£128,598	£210,172
Total additional wealth passed to family	N/A	£81,574

For illustration only. Assuming an illustrative growth rate of 4.5%, however the value of investments would be subject to market movements. The value could go up or down. Dealing costs assumes 2% average spread on AIM stocks. Assuming the portfolio is held for 2 years. Costs and charges are based on a Personal Investment Portfolio 6 of 7. There is a minimum charge of £1,000 and the above illustration demonstrates the full costs & charges applied to a portfolio. Further information on the costs and charges involved in this service is available on request.

How do we manage your portfolio?

Our experienced team will create a portfolio of around 20-25 AIM-quoted shares for you, selecting diverse companies from a range of industry sectors that offer growth potential and that are likely to qualify for BPR. All investors in the service will usually have holdings bought and sold in the same proportions according to the amount they have invested. Portfolios may vary over time however as we seek to avoid high levels of trading which can be a drag on performance.

If qualifying AIM shares are sold, the inheritance tax exemption is preserved, so long as the proceeds are reinvested in other qualifying shares, and the cumulative holding period is at least two years. This means that the portfolio can be actively managed without triggering a new two year holding period each time a new stock is bought.

Your money may not be invested all of the time and any money held as cash at the time of an investor's death may not qualify for an IHT exemption. The decision on whether assets are exempt from IHT lies with HMRC and will be made only when an estate is assessed for tax purposes.

Please note that Capital Gains Tax (CGT) and other taxes may apply to assets that have gained in value. This AIM Portfolio Service is intended to maximise IHT benefits, so any CGT implications will be disregarded. AIM investments can be held in ISAs, which are free from Income Tax and CGT.

Stringent investment criteria

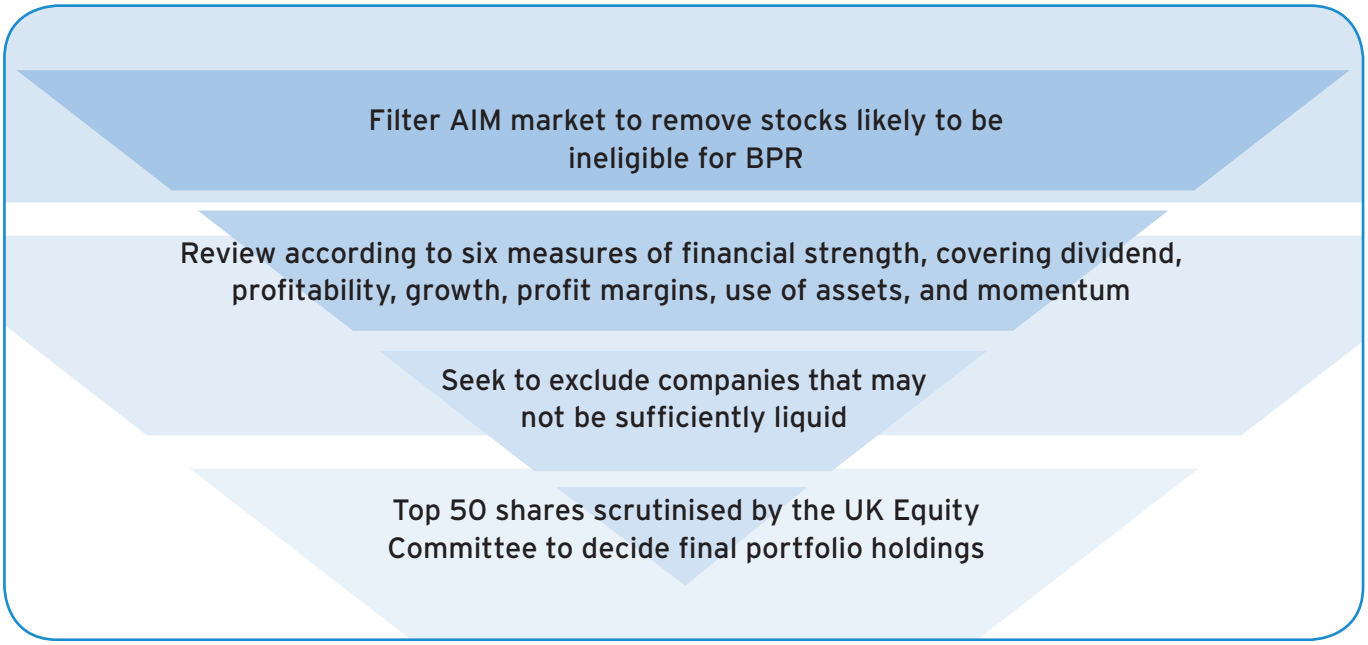
Companies joining AIM can be young and growing with the potential for dynamic growth and rapid expansion, however some of them are also well established companies with a long track record. Recent examples of companies on AIM include Fever-Tree drinks, Time Out and Hotel Chocolat.

Balanced against this is the fact that many AIM companies are not yet profitable, and may never be. Their shares may be owned by a relatively small number of investors, making them difficult to sell at a time of your choosing. It can also be hard to find independent analysis on AIM shares, especially the smallest companies, making it difficult to establish a fair value for the business. AIM shares can be highly volatile and while the prospects may be inviting, the risks can be extreme, with a much higher risk of financial loss in this market compared to more traditional markets.

With less than half of AIM companies currently making a profit and under a third paying a dividend it is important to be selective in which ones you buy. Our AIM portfolio is based on rigorous research combining modern data analysis with the benefit of our investment team's experience and market insight. We utilise the same proven Thesis Equity Stock Selection (TESS) process as for our equity portfolios.

The portfolio is rebalanced on a quarterly basis to reduce the risk of being significantly overweight in any particular holding and we monitor the holdings in the portfolio not only for their performance and future prospects but also with a view to selling shares no longer qualifying for BPR. If qualifying shares are sold, the eligibility for BPR is preserved as long as the proceeds are reinvested in other qualifying shares and providing the combined holding period amounts to at least two years.

Any income generated can be paid out or accumulated within the portfolio to contribute to the total return. However many AIM companies focus only on growth and may not pay income



About AIM

AIM was launched over 20 years ago, primarily as a marketplace for smaller companies to secure funding for growth and is part of the London Stock Exchange. Since then it has established itself as the leading market for smaller, fast growing companies that are looking to access capital from the public market.

Since launch in 1995, over 3,600 companies have floated on AIM and this has helped them raise more than £98bn of development capital. Today AIM includes approximately 900 companies, diversified across 40 different sectors.

As new companies grow, their need for capital injection can exceed the finance available from family, friends and angel investors. AIM allows companies to attract more shareholders and gives management teams access to experienced professional advisers and consultants.

Key benefits & risks section

Benefits

- **Speed** – your investment can be outside of your taxable estate for IHT purposes in only 2 years*
- **Access** – you remain in control of your assets
- **ISA eligibility** – providing inheritance tax exemption as well as tax-free income and growth.
- **Diversification** – actively managed portfolio with a focus on liquidity
- **Straightforward to establish** – no complex or costly legal arrangements
- **Expert management** – highly experienced research team
- **Can be part of a wider Thesis Discretionary Portfolio Service** – reducing your paperwork, all on one nominee or platform

Keeping you informed

Clients and their advisers can track portfolios using our online Client Portal, which gives access to the current value of your portfolio, your quarterly reviews, client correspondence and tax packs.

*based on current legislation. March 2019

Risks

Capital at risk
Potential investors should bear in mind that AIM shares are subject to market volatility and may not be a suitable investment. We recommend that you seek professional advice before making an investment decision and that you seek tax advice tailored to your personal circumstances.

Tax reliefs
Our assumptions about tax reliefs are based upon our understanding of UK tax law as at the date of publication. Tax law and personal tax allowances are subject to change, and may become less favourable in the future.

Holdings are chosen to be exempt from inheritance tax after 2 years under current regulations, although this cannot be guaranteed.

Business relief
The portfolio is managed to maximise relief from inheritance tax, and other tax considerations such as capital gains tax will be disregarded.

Liquidity
AIM shares may be owned by a relatively small number of investors which can make them illiquid and hard to sell.

Charges

- **1.2% plus VAT, per annum, minimum charge of £1,000.**

We can facilitate collection and payment of a client-approved adviser charge, subject to the receipt of a signed adviser charging agreement.

Company strength: client comfort

We are authorised by the FCA to hold and manage client money and have implemented all appropriate procedures and controls to safeguard it. Client assets are registered in our nominee companies, which are non-trading companies set up to ensure complete segregation of client assets from our own. In addition to our statutory financial audit we are also subject to a separate assessment of compliance with the Client Asset (CASS) rules by an appropriately qualified firm of accountants.

The Thesis group includes a number of regulated firms:

- Thesis Asset Management Limited
- Thesis Unit Trust Management Limited
- Pallant Independent Limited

How can we help?

Thesis can support you in different ways to ensure your investment needs are met, depending upon your requirements. We would be delighted to discuss these in more detail. Please contact us for more information.

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