

AUDIT • TAX • ADVISORY

Private Client & Entrepreneurial Business

Tax & Financial Planning and Wealth Management

12 May 2022

Now, for tomorrow





Our Speakers



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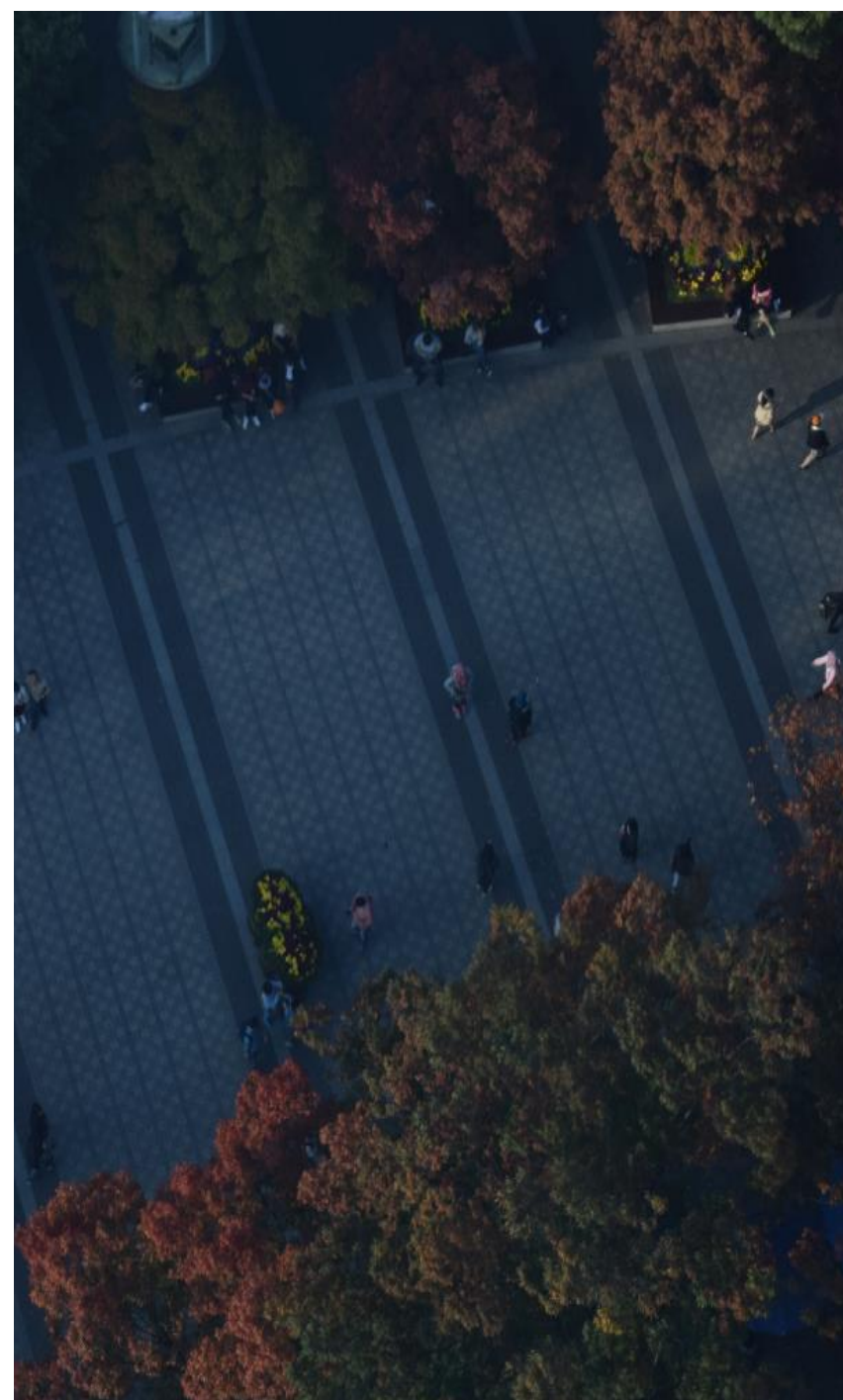


Marcus Bull

Independent Financial
Advisor
(MHA Caves Wealth)

What will be covered

1. Introduction to tax and financial planning
2. Inheritance Tax planning including Business Property Relief (BPR) investments and the opportunity for “BPR rollover” following a business sale
3. Tax efficient investments including VCT’s and EIS and associated income tax and capital gains tax planning
4. Venture Capital Trusts
5. Enterprise Investment Schemes (EIS)
6. EIS Tax Benefits – part 2
7. Family Investment companies





Inheritance Tax Planning

Marcus Bull



Business Relief Rules

Who qualifies?

- -a qualifying trading business
- -shares in an unlisted qualifying company
- - shares in a qualifying company listed on AIM

- **NB.** 2 year qualifying period from when HMRC declares the investment qualifying



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IHT Relief on BR Investments

100% IHT relief

- a business or interest in a business
- shares in an unlisted company

50% IHT relief

- Shares controlling more than 50% of the voting rights
- Land, buildings or machinery held by the deceased and used in a business that they were a partner or controlling interest
- Land, buildings or machinery used in the business and held in a trust that it has the right to benefit from.

0% IHT relief

- Company mainly dealing in securities, stocks and shares, land and buildings, making or holding investments.
- Not for profit organisations.
- **NB.** 3 year 'rollover' period after selling out of BR qualifying investment to reinvest without the need to requalify.



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Types of IHT BR Investments/Services

A special purpose vehicle (SPV)

- Run BR qualifying business which investors buy shares in
- Discretionary managed service investing in BR qualifying companies – AIM/unquoted
 - Typical spread 30-50 companies
 - 2 year qualifying period
 - Allow continued access for the investor
 - AIM available as an ISA



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Key Attractions

- 2 year qualifying rather than 7 years on other IHT planning measures
- Assets remain in control and access for the investor
- No complicated legal structure e.g. trusts
- Reduces IHT liability for beneficiaries
- Can include built in life assurance to cover failure to qualify under BR rules i.e. death within 2 years



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Suitability

- BR market made up of small/growing companies therefore considered higher risk
- Generally considered growth rather than income generating investments
- Should be regarded as 'open ended'



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Trusts

Benefits

- Identify beneficiaries – dependent on the trust have the ability to change
- No need for probate or prior payment of IHT
- Free of IHT after 7 years from inception
- Many different types of trusts for different needs
- Trustees maintain control of funds rather than outright gift



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Trusts

Absolute trust

- Cannot alter shares of any beneficiaries. If beneficiary dies prior to benefitting their share would pass under the will
- No periodic charge and no risk of an IHT charge on payment to beneficiaries
- Income distributions taxed on the beneficiary at their highest marginal rate



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Trusts

Flexible trust

- Can change beneficiaries and properties of benefit
- There is periodic charges;
 - Every 10 years in excess of Nil Rate Band (£325k) to max 6%
- Immediate tax charge of 20% over the NRB
- Income distributions to beneficiaries made net of 45%. Can be reclaimed wholly/in part by beneficiary based on their HMR via self-assessment.



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Trusts



Loan trust

- Access original capital: your client can access the original capital sum at any time, either as a full lump sum, occasional sum or regular repayments of the loan, addressing any concerns about unforeseen circumstances
- Capital growth: any growth on the investment is part of the trust and therefore will not further increase the size of your client's estate
- Probate: your client can choose for the loan to be waived on death, meaning that the trustees can access the money immediately.



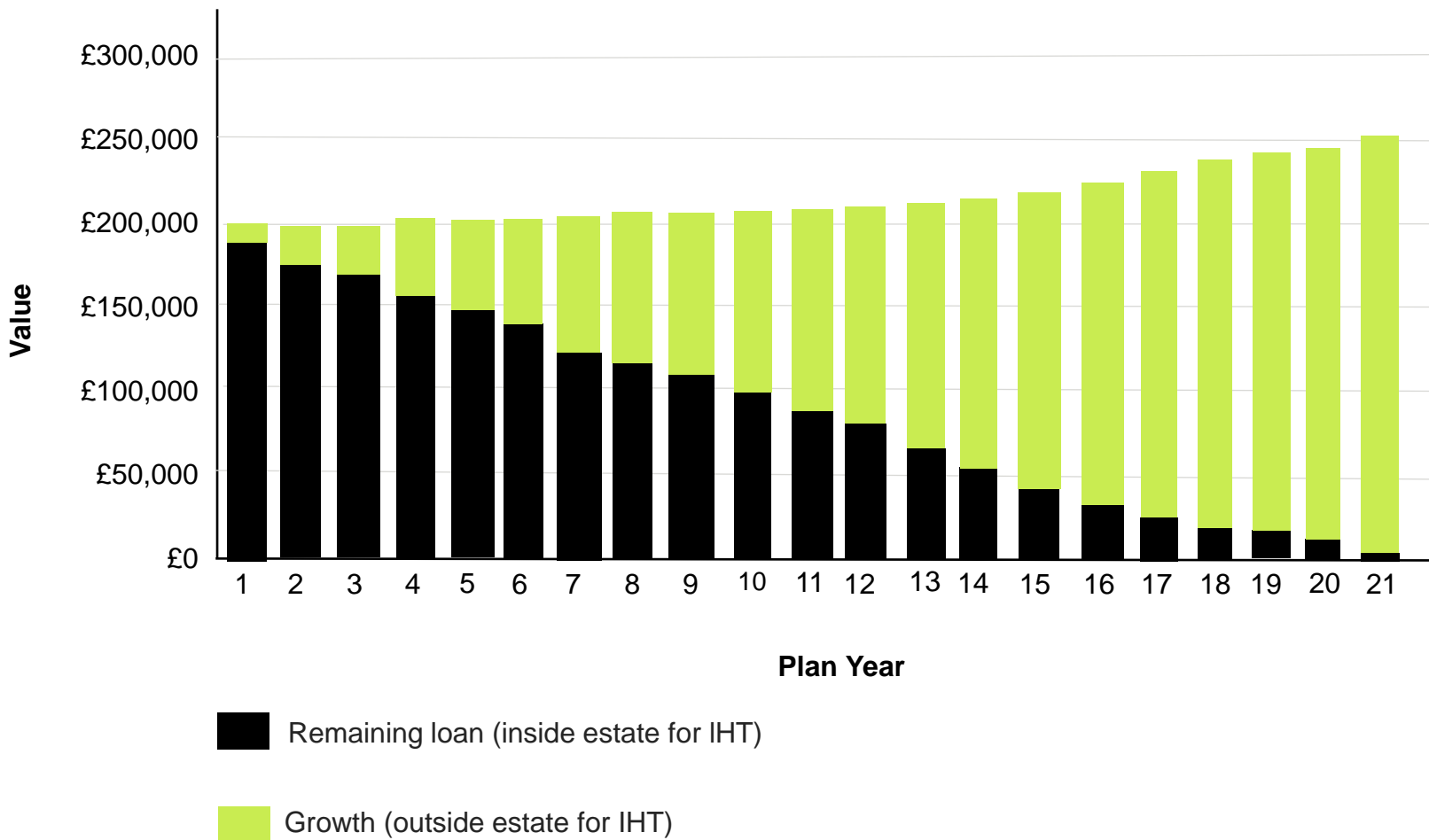
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Loan Trust



5% of loan repaid each year



Marcus Bull
Independent Financial Advisor

An aerial photograph of a tropical beach. The left side shows deep turquoise water with white foam from waves crashing onto a white sandy beach. On the right side, there are several palm trees and other greenery along the shoreline. A small white rectangular box is centered on the page, containing the title and author's name.

Tax Efficient Investments

Peter Brydon



Offshore (International) Investment Bonds

- Single premium (contribution) policies issued and administered by a Life Assurance company, based in an offshore jurisdiction
- Can be held directly within a Trust (for Inheritance Tax mitigation)
- Enables a portfolio of investments to be created and managed, on which no income or capital gains tax would be applied throughout the life of the Bond, enabling the underlying value of the portfolio to grow at a potentially faster rate than a portfolio subject to normal taxation
- Investors have an annual tax deferred allowance of 5% of the initial investment amount that can be distributed as 'income' without being immediately assessable to tax. This 'income' does not have to be reported to HMRC when drawn, simplifying administration from a tax perspective. Any unused 5% allowances can be carried forward from previous years, with no time limit on these having to be taken
- When the bond is finally encashed, any gain is assessable for income tax on the policyholder
- The Bond is split into 'segments', any number of which can be assigned to lower rate tax paying individuals, taking advantage of their respective personal allowances and lower tax bands in order to legitimately mitigate, or reduce, a significant degree of tax that may otherwise be payable on encashment of the Bond.

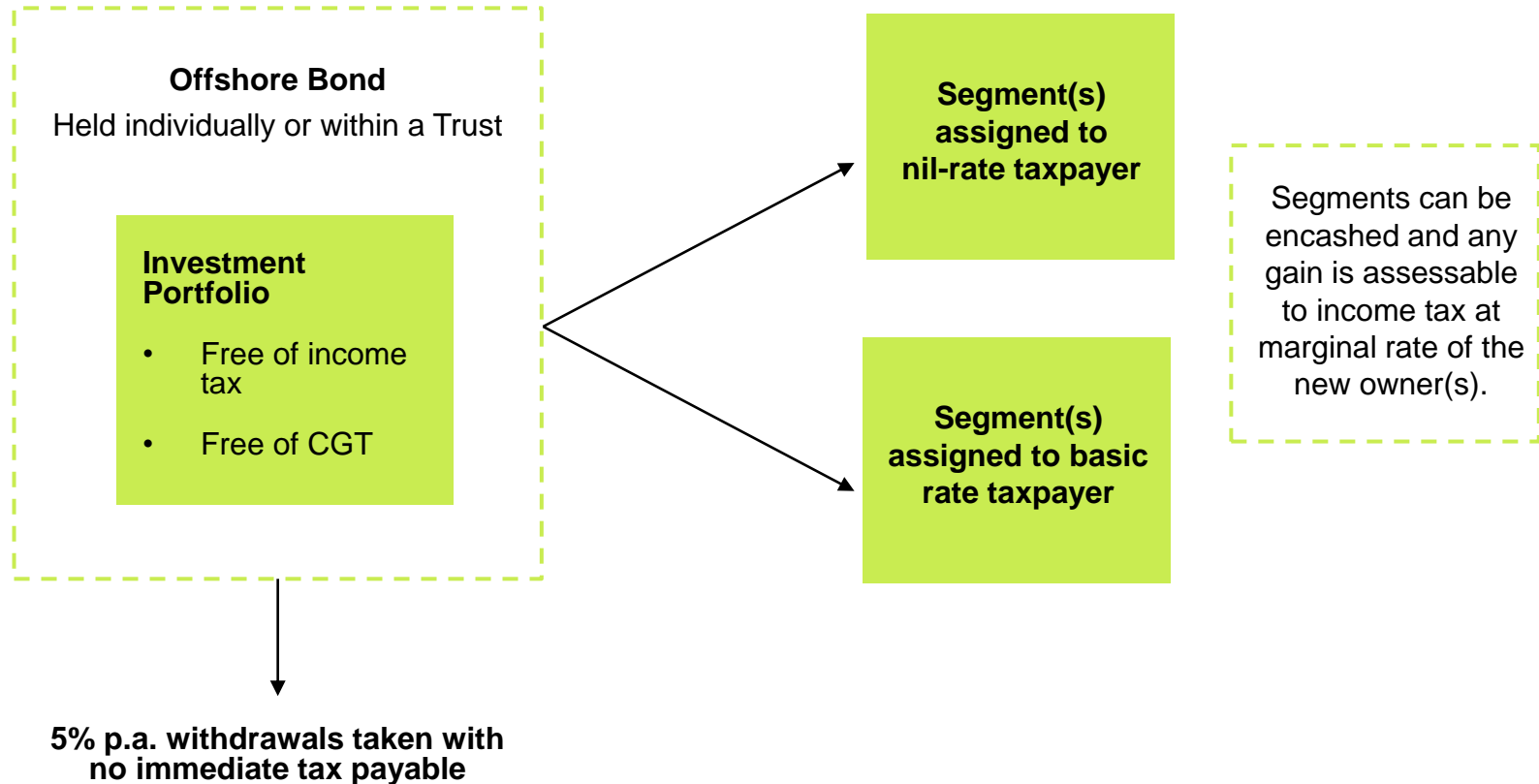


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Offshore (International) Investment Bonds



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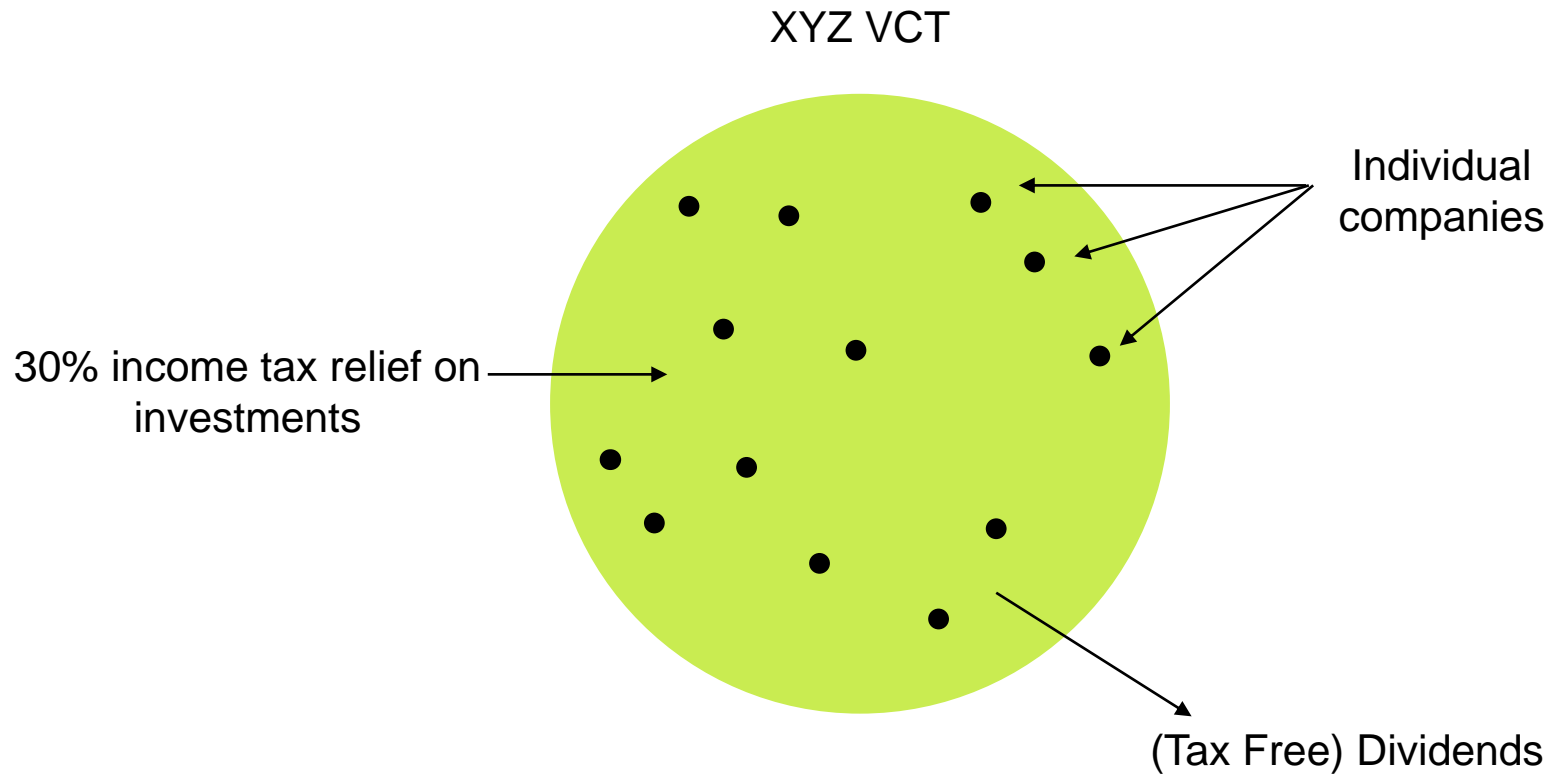
An aerial photograph of a beach with turquoise water and white sand. The image is oriented vertically, with the water at the top and the sand at the bottom. A white rectangular box is overlaid on the image, containing the title and author's name. A small green horizontal bar is located at the top center of the white box.

Venture Capital Trusts

Peter Brydon



Venture Capital Trusts (VCTs)



**Peter
Brydon**

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Venture Capital Trusts (VCTs)

- Listed (Investment) companies that invest into young and growing (but sometimes already profitable) UK companies
- Broadly two different types of arrangement; ones that invest in a portfolio of companies that are listed on the Alternative Investment Market (AIM) and those that hold a portfolio of unquoted (private) companies
- Deemed to be higher risk investments due to the nature of investing in smaller companies. However, a typical VCT will invest in 30-70 different companies, diversifying your investment and helping to minimise the risk
- Provide initial income tax relief at the rate of 30% of the investment amount (subject to certain qualifying criteria). The investment needs to be held for a period of five years in order for the initial tax relief to be retained
- Typically generate dividends in the region of 5% per annum, which are payable free of income tax
- Maximum investment per individual is £200,000 per tax year
- Gains arising from selling VCT shares are exempt from Capital Gains Tax (CGT).



**Peter
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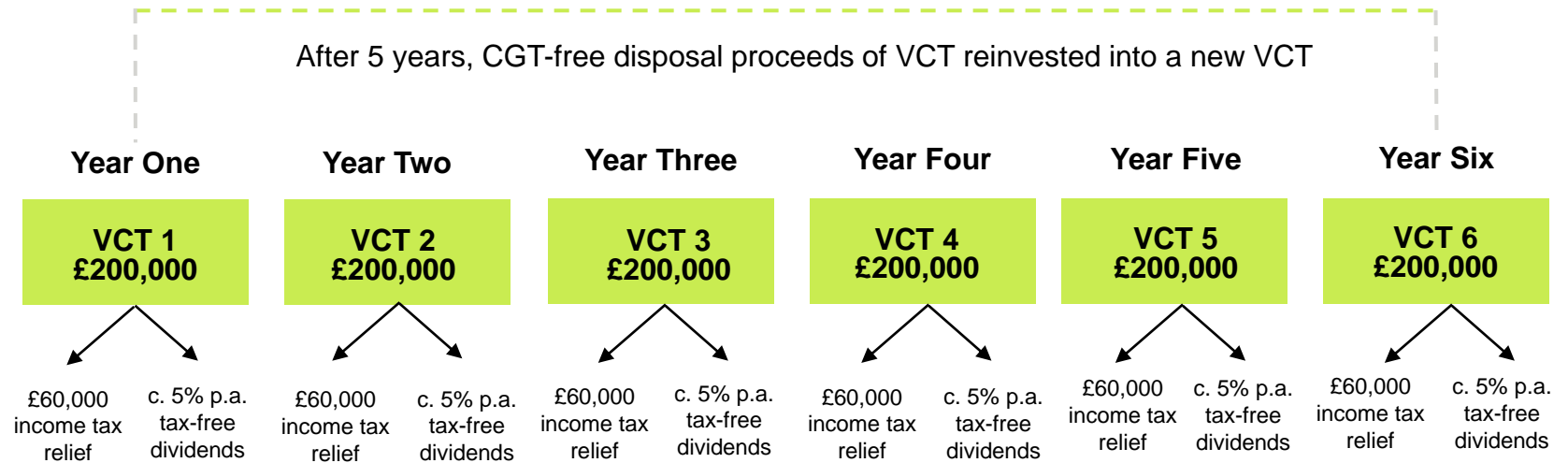
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Venture Capital Trusts (VCTs)

Example - based on an assumed annual investment amount of £200,000:

- Income Tax liability reduced by £60,000 for the tax year in which the shares are purchased.
- Additional tax-free income around £10,000 per annum (in year one), potentially rising to £50,000 per annum (in year five).
- Shares can be sold after five years, free of CGT, and the proceeds reinvested into another VCT, generating more income tax relief.



Over six years, £1 M invested will have provided £360,000 of income tax relief and potentially up to £200,000 of tax-free dividends i.e. net cash investment of £440,000.



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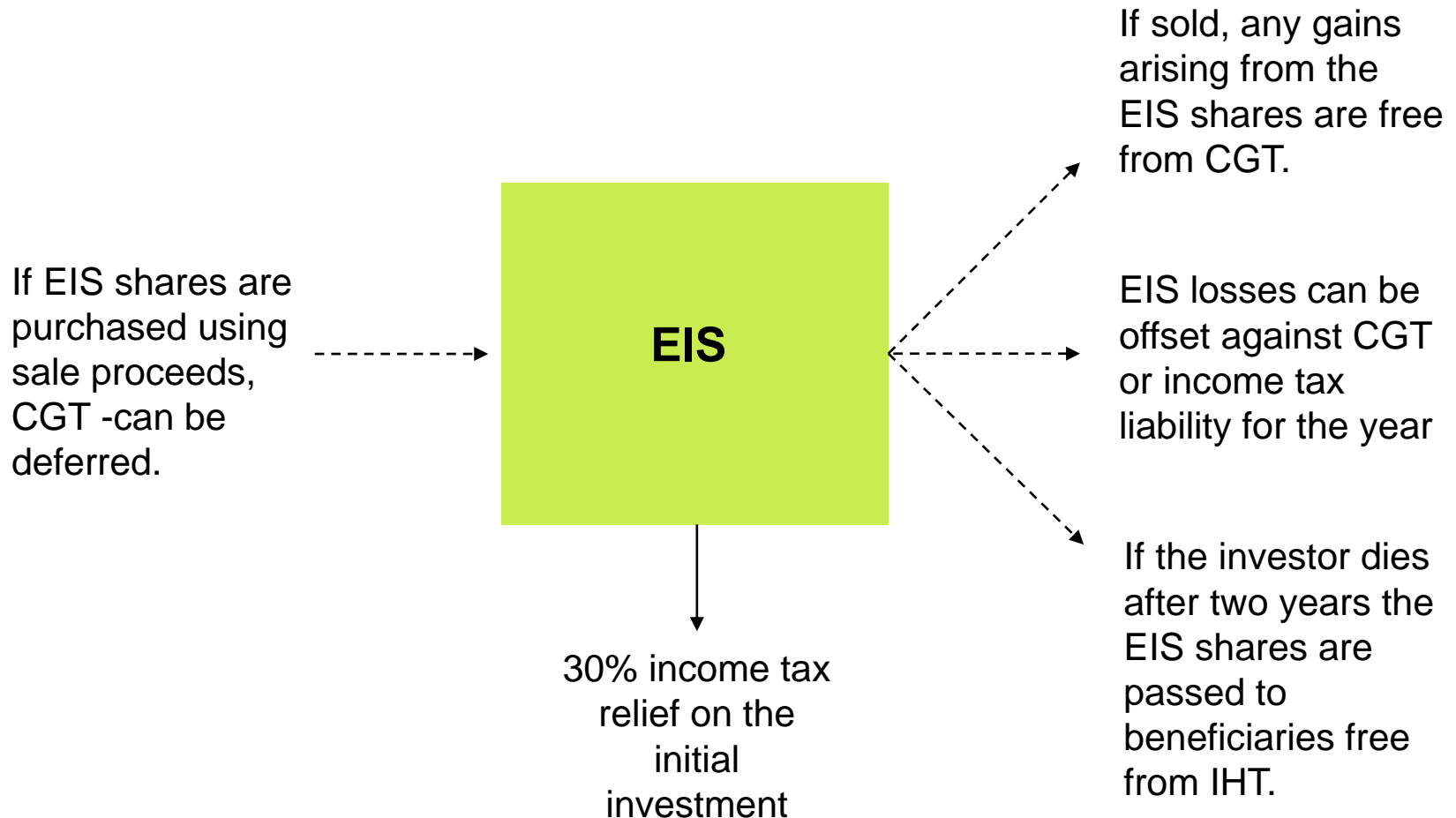
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An aerial photograph showing a dense, lush green forest on the left side, which meets a bright blue lake on the right. The forest is composed of many small, rounded tree tops, creating a textured green canopy. The lake's surface is calm with subtle ripples, reflecting the sky. A white rectangular box is overlaid on the center of the image, containing the title and author's name.

Enterprise Investment Schemes (EIS)

Peter Brydon

Enterprise Investment Schemes (EIS)



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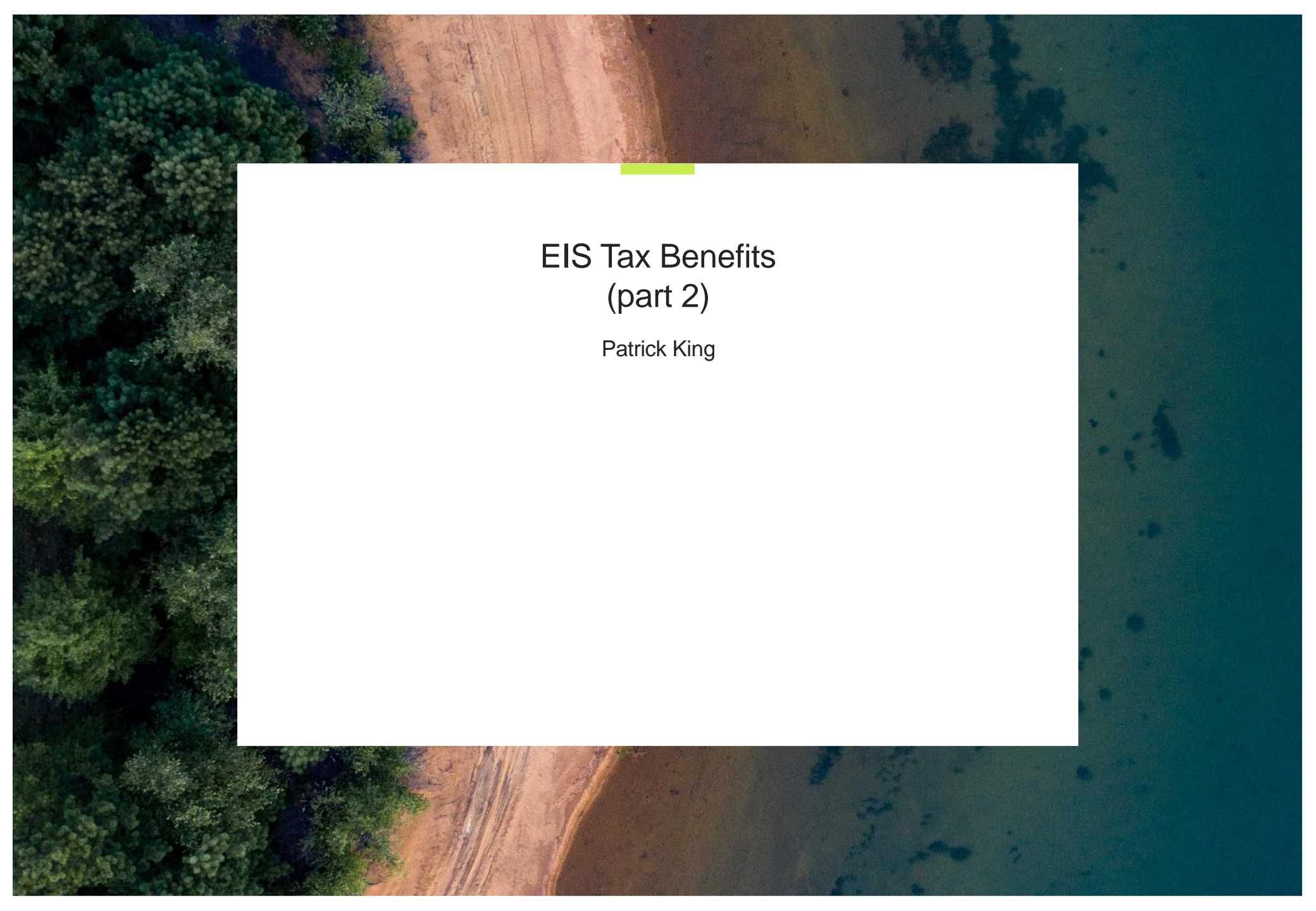
Enterprise Investment Schemes (EIS)

- Investments in early-stage UK companies that are either unlisted or listed on the Alternative Investment Market (AIM)
- Provide initial income tax relief at the rate of 30% of the investment amount (up to a maximum £1 million investment per tax year). The investment needs to be held for a period of three years in order for the initial tax relief to be retained
- Gains arising from the disposal of EIS-qualifying shares are exempt from capital gains tax (CGT)
- Gains made on the sale of other assets can be reinvested into EIS shares and the gain deferred over the life of the EIS investment. The EIS investment must be made between 12 months before and 3 years after the original gain was made
- EIS shares qualify for Business Relief (BR), meaning they can be left to beneficiaries free from Inheritance Tax provided they've been held for 2 years
- Losses made on EIS shares can be offset against the investor's capital gains or income tax bill (this is known as Loss Relief)



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EIS Tax Benefits (part 2)

Patrick King



EIS Tax Benefits: Example 1

- Wealthy individual disposes of investments and makes a £1m capital gain
- He has income tax liabilities of more than £300k
- He invests £1m in EIS shares and defers his £1m gain
- 5 years later he dies still owning the EIS shares

- Tax relief obtained is –

Income tax	£300k
CGT	£200k
IHT	<u>£400k</u>
	<u>£900k</u>



Patrick King

Head of
Entrepreneurial
Business



EIS Tax Benefits: Example 2

- Facts as before but the individual is non dom but now deemed dom
- He has unremitted income of £1m with no tax credit
- He is able to claim Business Investment Relief on EIS investments

• Tax Relief obtained is -	Income tax	£300k
	CGT	£200k
	IHT	£400k
	BIR	<u>£450k</u>
		<u>£1,350k</u>



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An aerial photograph of a beach with waves crashing onto the shore. The water is a deep blue-green, and the foam is white. The sand is a light tan color. The image is used as a background for the slide.

Family Investment Companies

James Kipping



Background

- Family Investment Companies (“FICs”) are commonly used for estate planning following changes to the taxation of trusts in 2006.
- FICs can mirror many of the advantages of a flexible discretionary trust but without the same tax treatment.
- Inheritance Tax (“IHT”) benefits come from the following:
 1. Gift on formation of the company reduces estate of founders;
 2. Share valuation; and
 3. FIC is not within the relevant property regime so is not subject to 10-year anniversary IHT charges of 6% like a trust, or subject to exit charges.
- There are often income tax (and sometimes capital gains tax) advantages as well.



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How Are FICs Funded?

- Share subscription – cash
- Debt
- Sale of assets
 - SDLT or Stamp Duty
 - Capital gains tax
- Using incorporation reliefs



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Tax Treatment

For the company:

- Corporation Tax 19% (up to 25% from 2023)
 - Income
 - Capital gains
- Dividends usually exempt

For the shareholder:

- Dividends up to 39.35%
- Capital returns



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Double Tax



	Basic rate taxpayer	40% taxpayer	45% taxpayer and Trusts
Non dividend income of FIC	£100	£100	£100
Less Corporation Tax at 19%	-£19	-£19	-£19
Net income paid as dividend	£81	£81	£81
Tax at appropriate rate for dividends (8.75% / 33.75% / 39.35%)	£7	£27	£32
Net balance	£74	£54	£49
Effective rate on original £100 of income	26%	46%	51%



James Kipping

Head of
Private Client



Double Tax (CT rate rise to 25%)

	Basic rate taxpayer	40% taxpayer	45% taxpayer and Trusts
Non dividend income of FIC	£100	£100	£100
Less Corporation Tax at 25%	-£25	-£25	-£25
Net income paid as dividend	£75	£75	£75
Tax at appropriate rate for dividends (8.75% / 33.75% / 39.35%)	£7	£25	£30
Net balance	£68	£50	£45
Effective rate on original £100 of income	32%	50%	55%



James Kipping

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Income Tax Benefits

- Usually only where there's not a requirement to draw all profits as taxable income.
- For higher rate taxpayers, the lower corporation tax rate means more post-tax profits for reinvestment (or repayment of borrowing).
- Finance cost restrictions do not apply to companies.
- Profit can be extracted as loan repayments without income tax if FIC has been funded by director/shareholder debt.
- The FIC share structure can provide an ability to pay income to other family members.



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Share Capital Structure

Type of shares:

- Ordinary shares – including alphabet shares
- Preference shares
- Redeemable shares
- Convertible shares

Share rights:

- Right to vote
- Right to income
- Right to capital



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Use of Trusts

- Bare trusts for minors and adults
- Formal trusts:
 - Control (voting rights of trustees)
 - Additional shareholder
 - Flexibility of income
 - Pot of shares for unborn children



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Common Questions

- What about privacy? A trust does not have to file accounts but a company does.
- Can I re-allocate shares in a FIC?
- Can I use my existing trading company as a FIC when I cease trade?
- Can I take assets out of a FIC?



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Case Study 1

- Mr X (65) and Mrs X (65) sold business and have £5m to invest.
- They have two adult children, one of whom is married with two children.
- They expect to have more grandchildren.
- They want to provide for their children and grandchildren, but they want to retain control.
- They do not expect to ever need more than £2m of the £5m



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With No Planning

- £5m plus growth remain in Mr & Mrs X estates for IHT
- Minimum IHT bill of £2m

- Income taxable at up to 45% / 39.35%
- Dividend yield of say 3.5% on £5m = £175K
- Income tax £69K

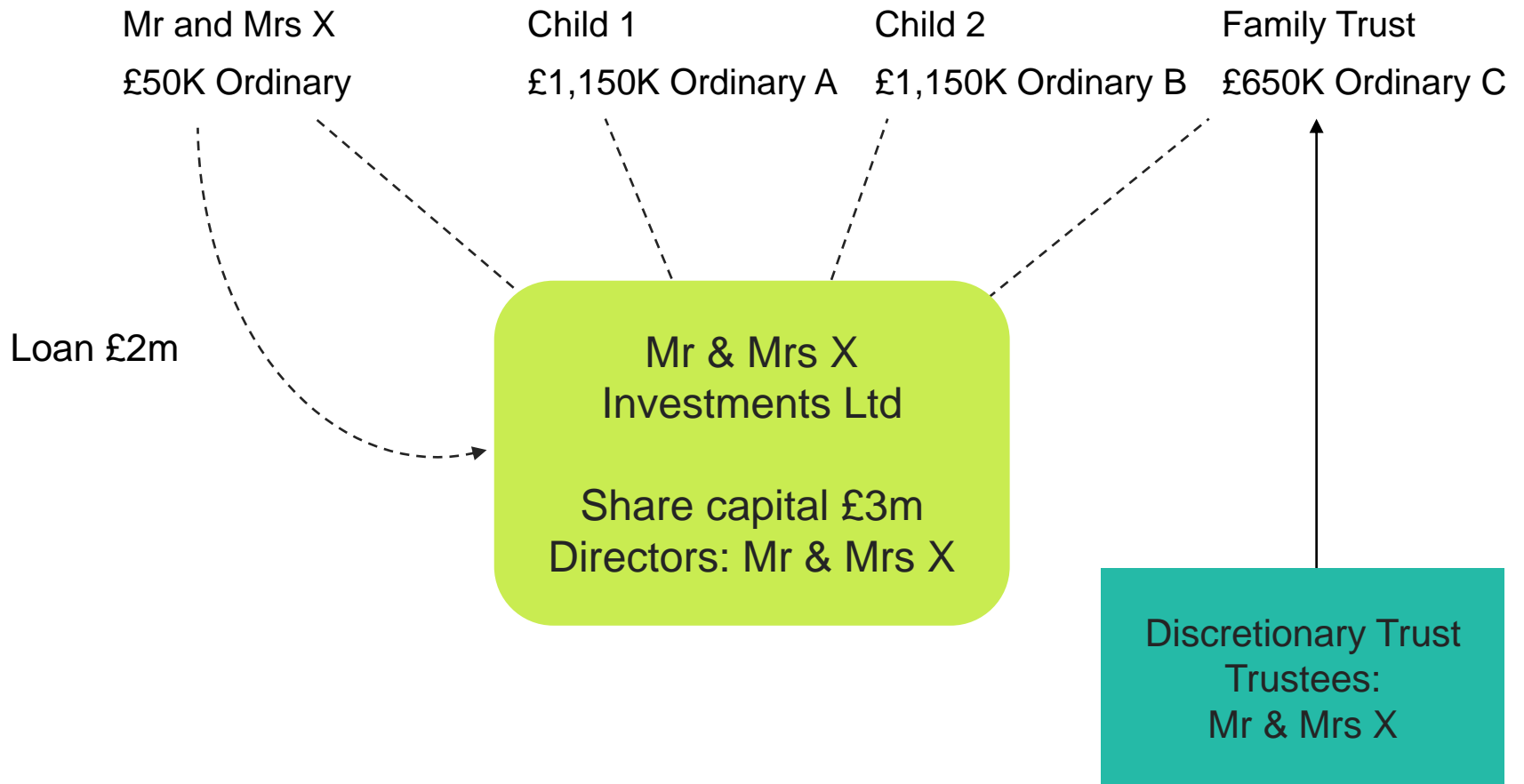
- **But... this can be improved significantly with a FIC**



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Head of
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Recommendation



James Kipping

Head of Private Client



Tax Benefits

Inheritance Tax:

- £2.95m out of estate after 7 years
- All growth out of estate immediately

Corporation Tax:

- 19% (up to 25% from 2023)
- 0% dividend income

Income Tax:

- Tax free withdrawals against £2m loan
- School fees via Discretionary Trust – up to £14,570 per grandchild tax free
- Other remuneration planning – pension contributions?



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Questions?



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Key Risks: Capital at risk.

Past performance is not a guide to future performance. The value of an investment and the income generated from it can go down as well as up, and is not guaranteed, therefore you may not get back the amount originally invested.

Investment markets and conditions can change rapidly. Investments should always be considered long term.

Risk warnings & important information you should read:

VCT's:

- Venture Capital Trusts (VCTs) are high risk investments and there may be no market for the shares should you wish to dispose of them. You may lose your capital.
- The tax treatment depends on the individual circumstances of each client and may be subject to change in future.

EIS:

- Enterprise Investment Schemes (EISs) and Seed Enterprise Investment Schemes (SEIS) are very high-risk investments. An EIS/SEIS investment is usually concentrated in one single unquoted trading company. Often there is no market for the shares and it may therefore be very difficult to make a disposal.
- There is a strong possibility of the chosen company failing.
- The tax treatment depends on the individual circumstances of each client and may be subject to change in future.

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