Inheritance Tax Service

Pass on your wealth efficiently
by investing in smaller companies

Sanlam Wealth

Contents

Sanlam UK is a leading provider of high-quality investment services. Through our national network of offices, we help individuals, couples and families protect and grow their wealth over the long term.

We are part of Sanlam Limited, an international financial services group with a listing on the Johannesburg Stock Exchange. Established in 1918, the group provides a broad range of services to more than 10 million clients globally, including insurance, financial planning, investments and wealth management.

Pass on your wealth efficiently

A forward-looking approach is vitally important when it comes to protecting your family's wealth for future generations. Without a proper plan in place, you could leave them with an unnecessary tax bill.

There are various ways to reduce your inheritance tax (IHT) liabilities with advantages and disadvantages to each. Some involve giving up control of your assets, complicated legal arrangements or medical underwriting – and you may have to wait several years before they take effect.

Experience and expertise

One approach is to invest in a portfolio of shares listed on the Alternative Investment Market (AIM) that qualify for business relief. After just two years, the investments are no longer liable for IHT – making this strategy ideal if you're looking for an effective way to pass on your wealth.

Drawing on our extensive investment skills and expertise, we have the resources required to create and manage a portfolio of smaller companies that qualify for business relief on your behalf. We've made it easy to invest in our Sanlam IHT Service, and you can add and withdraw money whenever you want.

Although we manage these portfolios within a robust framework that guides all decisions, you should feel comfortable with the risks involved when investing in smaller companies. You can find out more about these as well as the potential opportunities over the following pages.

Building and managing your portfolio

When investing in AIM, the real challenge lies in finding companies we believe can achieve long-term returns in addition to qualifying for business relief. The results are diversified portfolios of around 25 to 45 shares across a wide range of industries.

We work with specialist investors who select companies using a detailed research process, which typically involves spending time with management teams, evaluating competitors and assessing financial strength. They only invest when they're confident they've found a company with solid earnings growth potential.

Seeking attractive returns

Investing in smaller companies can offer the potential for higher returns but is naturally associated with higher levels of investment risk. Our investment process involves analysis and due diligence before making any investment decisions, and we then monitor each position continually.

Experience and specialist knowledge become even more important when managing portfolios with the objective of reducing IHT liabilities. The qualifying rules for tax reliefs are complicated and companies must meet strict criteria.

If a company's core business activities drift, it can lose its eligibility status. For example, a company may no longer be eligible for business relief if it moves into a new area of business or receives a takeover offer. We work with an independent firm of specialists to help us manage investment risk.

Fees

We do not charge an initial charge for this portfolio.

An annual management fee of 1.5% plus VAT is charged on the portfolio.

Investment process

Our robust investment process provides a consistent framework for building and managing IHT portfolios.

Research
Explore the market in the search for high-quality businesses that qualify for business relief.

Select
Identify shares at attractive prices and build diversified portfolios.

Manage
Monitor the performance of holdings and react to market conditions.

Key benefits

The Sanlam IHT Service is a tax-efficient way to pass on wealth with additional advantages.

Straightforward
An uncontentious and government-approved approach for reducing your tax liabilities that doesn't involve any complicated legal structures (as with a trust) or medical underwriting (as with an insurance policy).

Effective
Providing you have held your shares for at least two years at the time of your death, your investments should be IHT free. Most other forms of estate planning take seven years to become fully exempt.

Efficient
You can hold shares in your ISA and self-invested personal pension (SIPP) so that any dividends and growth will not be subject to income or capital gains tax.

Flexible
You retain access to your investment and can ask us to sell your shares at any time.

Attractive
Investing in smaller companies listed on AIM offers the potential to grow your wealth over the long term.

Attentive
On your death, we'll give your family everything they need by sending them details of your investments along with an information pack.

Key risks

We have created the Sanlam IHT Service for people who are looking to pass on their wealth efficiently. Investors should only use the service if they are prepared to accept the risks associated with investing in the shares of smaller companies to mitigate their tax liabilities.

Investment risk

The value of your investment can go down as well as up and you may not get back your initial investment. Investing in companies listed on AIM can involve more risk than those listed on the main market of the London Stock Exchange and their share price movements tend to be more volatile.

Relief risk

The tax treatment will depend on your financial situation and tax rules are also subject to change. In addition, the underlying companies must meet certain criteria to qualify for tax reliefs. A company could lose its qualifying status if it changes its business activities, and its shares would then have no tax advantage.

Liquidity risk

AIM-listed shares are less liquid than shares listed on the main London Stock Exchange. Therefore, to obtain the best price, it may take longer to liquidate your portfolio.

You can add or withdraw money from your portfolio whenever you want. We will endeavour to sell shares as soon as possible, however, delays can occur when liquidity is unavailable.

Holding period risks

This investment approach has a two-year minimum holding period. Failure to meet this holding period through share sales or death of the investor may result in the underlying tax strategy becoming ineffective.

Case study

A 70-year-old client is looking for an efficient way to pass on wealth to their children. Taking into account the combined value of the estate, which comprises a home, savings and investments, the beneficiaries would face a potential IHT liability on the £100,000 portfolio of shares.

After discussing the situation with a financial adviser and confirming they are comfortable with the risks of investing in smaller, AIM-listed companies, the client decides to transfer the £100,000 share portfolio into the Sanlam IHT Service.

Providing the client holds the shares for at least two years, and assuming they still hold them at the time of death, the portfolio should be exempt from IHT.

In the meantime, the Sanlam IHT Service provides flexibility. If the client needs to withdraw any of the investment before they die, they can do so without affecting the IHT relief on the remaining amount.

The diagram on the right is an illustration of the tax treatment and assumes the value of the Sanlam IHT Service remains the same. In reality, the value of the investments would be affected by price movements in the underlying shares, and the performance of the Sanlam IHT Service may be materially different from the one shown. A more comprehensive list of risks are detailed on pages 18 to 20.

We recommend you seek advice from an appropriately qualified tax adviser. This case study shows the impact of ongoing charges but does not include any charges paid to a financial adviser.

£

Sanlam IHT Service
£100,000

No initial fee
£100,000

After two years' annual management charge of 1.8% (including VAT)
£96,432

IHT liability (after two years)
£0

Value passed to family
£96,432

Explaining inheritance tax

It's important to think about how your family will inherit your assets because tax can have a dramatic impact. Integrating strategies such as the Sanlam IHT Service within your financial plans can help.

Everyone living in the UK can leave up to £325,000 after they die without any IHT liability (also known as the nil-rate band). After this amount, your estate pays 40% on the remaining assets.

There can be benefits to being married or in a civil partnership when it comes to IHT. That's because any proportion of the tax-free allowance that is not used when your husband, wife or civil partner dies can be transferred to you.

Pass it on

The rules surrounding IHT are always changing, which is why it's important to seek advice from a professional who specialises in estate planning. For example, the government has recently introduced an additional nil-rate band that makes it easier to pass on the family home to direct descendants.

Of course, you can give money and assets to your family at any time. But to ensure that it's tax free, it's important to plan when you make that gift. Providing you live for another seven years, your family won't have to pay IHT when you die.

If you leave something to charity in your will, then it won't count towards the total taxable value of your estate. You can also cut the IHT rate on the rest of your estate from 40% to 36% if you leave at least 10% of your total assets to one or more charities.

Everyone living in the UK can leave up to £325,000 after they die without any IHT liability (also known as the nil-rate band).

£5.3 billion

forecast to be raised by HMRC from IHT in 2017–18

22,400

estates are liable to IHT in 2017–18, which represents around 3.8% of the total

—

Source: UK Office for Budget Responsibility, 2018.

What is business relief?

We have designed the Sanlam IHT Service to take advantage of business relief, which has become a well-established and popular tool for estate planning.

Business relief was introduced in the 1976 Finance Act to ensure family-owned firms could survive without having to be broken up or sold to pay IHT. Qualifying investments are IHT exempt after a holding period of two years providing the shares are still held at the time of death.

Over the past 40 years, the type of companies that fall under the business relief scheme has expanded and now includes many that are listed on AIM. However, the rules set out by HMRC are complicated.

For example, they exclude businesses that are engaged wholly or mainly in dealing in securities, stocks or shares, land or buildings, or in making or holding investments. We remove the associated complexity by managing the portfolio on your behalf.

We designed our service to mitigate IHT liability after only two years by investing in a portfolio of AIM stocks that qualify for business relief.

A tax-efficient portfolio

Knowing which companies qualify for business relief is important and the rules are changing all the time. Our investment teams ensure they are always aware of the latest guidelines to avoid investing in the wrong companies, which would then result in a potential IHT bill.

It's also essential to monitor the companies in which we've invested, and we work with an independent firm of specialists. Any changes in a firm's ownership structure or business activities could mean it loses its qualifying status, and its shares would then have no tax advantage.

Since 2013, it has been possible to include AIM shares in an ISA, making them ideal investments to hold in a tax-efficient portfolio. Due to the complexity surrounding the rules, building and managing such a portfolio requires specialist knowledge and experience as well as an ongoing commitment of resources, which Sanlam provides.

What is the Alternative Investment Market?

AIM is part of the London Stock Exchange and is designed for smaller companies seeking capital to expand. Since its launch in 1995, more than 3,000 firms have listed and raised over £60 billion.

During this time, AIM has built a reputation as a potentially attractive destination for investors. We have designed the Sanlam IHT Service to take advantage of these potential investment opportunities.

Certain AIM shares can benefit from business relief (see page 14 for more details). As a result, there is then no IHT liability for your beneficiaries after you've held them for two years.

Additionally, you can also hold shares within an ISA and self-invested personal pension (SIPP) so that any dividends and growth will not be subject to income or capital gains tax.

The attraction of smaller companies

Typically, AIM-listed companies are not as well researched as larger firms, which can create more opportunities to find shares at attractive prices. Although AIM attracts international businesses, many are closely linked to the UK economy. Some investors find the idea of supporting domestic growth and jobs appealing.

AIM represents a diverse range of industries from healthcare, technology and energy to finance, food and drink, and fashion. The index is home to many well-managed and profitable businesses, with success stories including online fashion store ASOS, wine retailer Majestic Wine and luxury handbag maker Mulberry.

However, more relaxed regulatory requirements mean investing in AIM companies can be riskier than investing in larger firms listed on the main indices, such as the FTSE 100 and 250. AIM shares tend to be less liquid, meaning there can be a large difference between the buying and selling prices. One result is that performance can be volatile.

AIM represents a diverse range of industries from healthcare, technology and energy to finance, food and drink, and fashion.

956

companies listed on AIM at the beginning of 2018

804

are UK-based

152

are international

—

Source: London Stock Exchange, 2018.

Understanding the risks

Investment risk

Share prices, and the prices of other investment instruments and products, can go down as well as up. This means that you may get back less than you originally invested in the Sanlam IHT Service. In the case of equities generally, not only will their price and value vary but dividend payments may also fluctuate in line with the fluctuating trading performance of the issuing company.

Stockmarkets are volatile, which means that prices can move up and down sharply in the short term and can vary significantly depending on trading volumes in the market. If you instruct us to sell your investments during a downturn, you may be exposed to a greater risk of loss than you would if you waited for markets to recover.

For this and other reasons, equity investments should usually be looked at as a medium- to long-term investment. Generally that means investing for a period of five years or more to benefit from any positive movements in market trends.

An investment in the Sanlam IHT Service should not be considered as a short-term investment. It may not be suitable for you if you consider it likely that you will have a short-term need to withdraw a substantial proportion of the money you have invested.

Although markets and commentators typically track historical data and may use it when considering investment decisions, past performance is not a guide to future performance.

Tax risk

The extent and value of any tax advantages or benefits arising from the use of tax-advantaged services will vary according to individual circumstances and government legislation. The levels and bases of taxation may also change. You are recommended to seek advice from an FCA authorised person or an appropriately qualified tax adviser regarding the tax implications of any investment through the Sanlam IHT Service.

Force majeure events may affect a party's ability to perform its contractual obligations or may lead to the underperformance of an investee company.

Smaller company risk

Investing in AIM-listed, smaller capitalised companies is high risk and may expose you to a significant risk of losing your investment.

It may be difficult to obtain accurate information in order to determine the current value of your investment through the Sanlam IHT Service.

Many smaller-quoted companies have small management teams and are highly dependent on the skill and commitment of a small number of individuals. The performance of these companies may therefore be adversely affected by the departure or unavailability of certain key personnel.

Smaller, AIM-listed companies commonly experience significant change and carry higher risk than is the case in larger or longer-established quoted companies.

Shares in AIM companies are illiquid and it may take some time to invest and disinvest your portfolio. Market makers may not be prepared to deal in all AIM-quoted securities.

Force majeure events, which are those beyond the control of any party, including fire, flood, earthquake and other acts of God, terrorist attack and war may affect a party's ability to perform its contractual obligations or may lead to the underperformance of an investee company.

Business relief risk

Sanlam will use its best endeavours to invest in companies quoted on AIM that qualify under the business relief rules. However, Sanlam cannot guarantee that all investments will qualify for such relief and therefore accepts no liability in this regard.

Following the admission of a company to the main market of the London Stock Exchange, business relief for IHT purposes will cease.

The levels and bases of reliefs from taxation may change or such reliefs may be withdrawn. The tax reliefs referred to in this document are those currently available in accordance with current legislation and their value depends on your individual circumstances at the point of investment.

An investment into Sanlam IHT Service could result in additional capital gains, which could result in a capital tax liability as a result of selling shares to raise cash to pay fees, unless held via an ISA.

Market risk

An investment into the Sanlam IHT Service may result in a growing cash position if the level of dividends received exceeds the level of fees on the portfolio. Such cash will be reinvested into shares as appropriate but, until such time that it is reinvested, it will not qualify for business relief.

While funds remain uninvested, they will not be subject to market movements (either up or down). However, the two-year holding period required for business relief only starts from the date of investment in qualifying shares. Sanlam will use their best endeavours, subject to market conditions, to invest clients' funds within four weeks of receipt of application.

However, when we consider trading conditions to be unfavourable (that is, periods of sustained market volatility), Sanlam will use their discretion to act in the best interest of clients and ensure a policy of best execution. As a result, at times it may take longer than the anticipated four weeks to fully invest clients' funds.

This list is not intended to be exhaustive and you should discuss the element of risk affecting your investments with your financial adviser.

How to invest

Due to the risks involved with investing in a portfolio of AIM-listed shares, it's important you understand what's involved. Working closely with a professional who has expertise in estate planning should form part of this process. There are two options:

Through your existing financial adviser
If you already have a financial adviser, they will be able to tell you more about the potential benefits of investing in the Sanlam IHT Service, and whether it's appropriate for you.

Through a Sanlam wealth planner
If you don't already have an adviser, please contact us directly to arrange an initial meeting on 0117 975 2125 or enq@sanlam.co.uk

Contact us

To find out more about Sanlam's inheritance tax service, please call 020 7280 8700.

We can arrange a meeting at one of our offices throughout the UK or somewhere convenient for you.

enq@sanlam.co.uk

sanlam.co.uk

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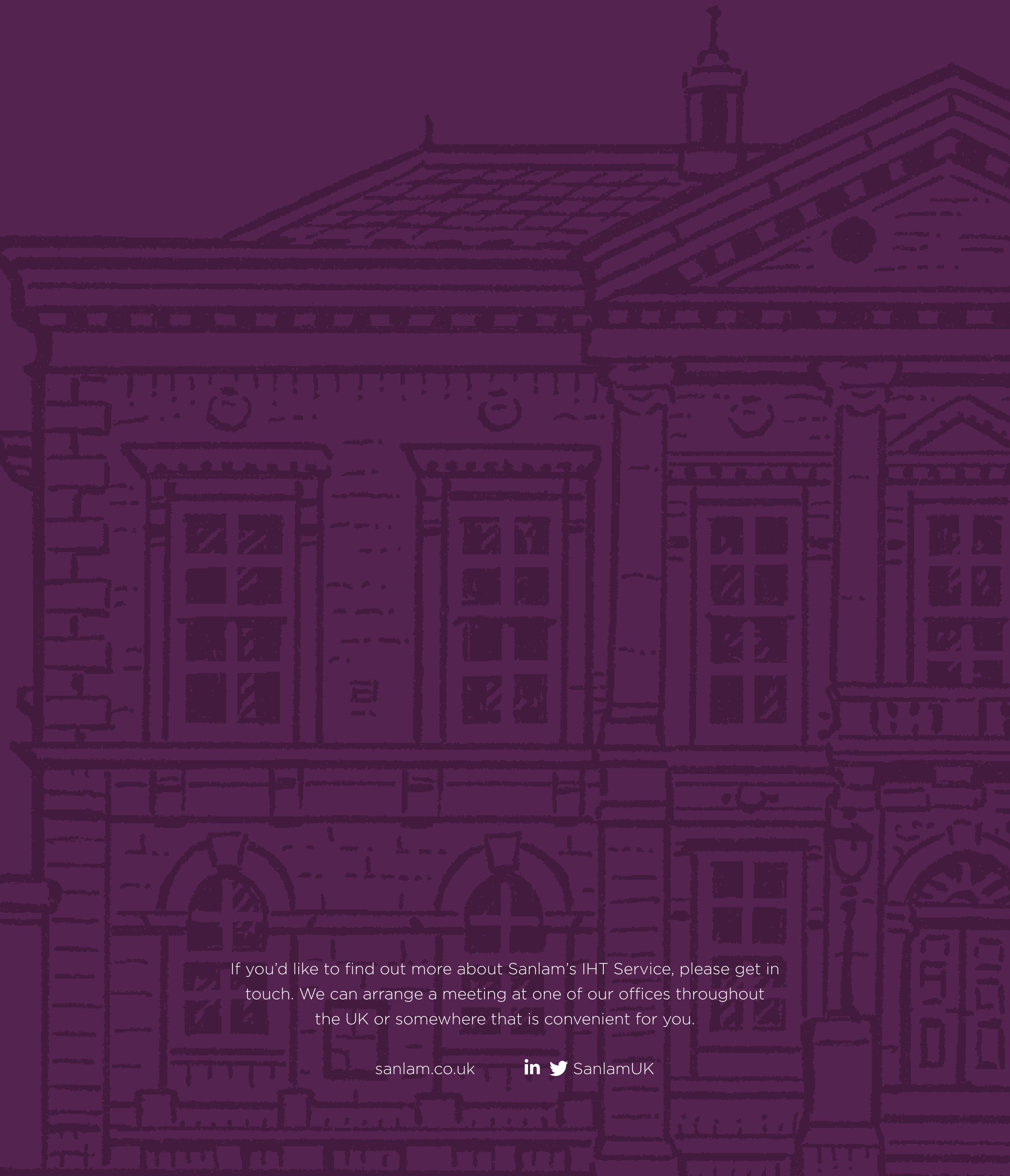

If you'd like to find out more about Sanlam's IHT Service, please get in touch. We can arrange a meeting at one of our offices throughout the UK or somewhere that is convenient for you.

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