

Specialist Tax Portfolio Service

Business Relief against
Inheritance Tax

Introduction

Rathbones
Look forward



Rathbones offer a dedicated private client discretionary portfolio service providing clients of Financial Advisers with the ability to own a bespoke portfolio of monitored investments in Business Relief (BR) qualifying shares.

The Relief

Business Relief was introduced in the 1976 Finance Act enabling shares in family businesses to be transferred without being eroded by Inheritance Tax; this has evolved since to incorporate shareholdings in certain AIM traded companies. This is a long standing tax relief that is considered a non contentious form of tax planning. Business Relief qualifying assets are exempt from Inheritance Tax where they have been held for a period of at least two years upon the death of the shareholder.



The attractions of a BR qualifying AIM traded smaller company portfolio include:

- **Speed** - once qualifying investments have been held for more than two years their value is removed from the Estate for IHT purposes.
- **Control** - client retains full beneficial ownership of the assets.
- **Flexibility** - income can be paid away and additional funds can be added at any time.
- **Simplicity** - no complicated tax structures, age limitations, life cover or health checks.
- **ISAs** - since August 2013 AIM shares can be held in ISAs.
- **Replacement Relief** - allows proceeds from qualifying investments to be reinvested into other qualifying investments without restarting the two year holding requirement.
- **Liquidity** - being traded on AIM generally means transactions can be completed quickly upon request though in very difficult market conditions this may take some considerable time.

To benefit from this generous tax concession, investors must be prepared to trade, their capital is at risk and this includes the most tangible investment risk but also qualifying and trade against increased risks. Their capital is at risk where we would guide readers to our Additional Terms of Business and brochure for more information.

Portfolio structure

There were 800 AIM constituents as at the end of May 2023 according to the London Stock Exchange's monthly AIM Factsheet. Not all of AIM's constituents will qualify for the relief. Presently there are 36 companies on the portfolio and in respect of timing we look to be fully invested as soon as practicable subject to general market conditions, liquidity constraints or a requirement to phase the funds into the market. Portfolios are actively managed and replacement relief supports an active management approach.

Investment philosophy

Our investment style means that we choose not to invest in highly indebted, loss making, sub scale, binary or 'blue sky' opportunities which reduces the AIM All Share 'investment universe'. In addition each portfolio constituent is monitored for its qualifying status by an external firm of advisers. Our preference is for qualifying, profitable, established, well managed, dividend paying AIM traded investment opportunities. One of the main risks associated with smaller companies is liquidity and we have a preference for larger companies; the average market capitalisation of an AIM All Share constituent at the end of May 2023 was approximately £106 million compared to our portfolio company average which is a multiple of that figure. Strong balance sheets are important and the majority of our investee companies have net cash balance sheets. Three companies that may feature on portfolios are as follows:

Investee companies

Renew

Renew is a leading UK Engineering Services business founded in 1786; performing a critical role in keeping the nation's infrastructure functioning efficiently and safely. The Group operates through independently branded subsidiaries across its chosen markets, delivering non-discretionary maintenance and renewal tasks through its highly skilled, directly employed workforce. Renew's activities are focused into two business streams: Specialist Engineering, which accounts for over 90 per cent of the Group's adjusted operating profit, focuses on the key markets of Rail, Infrastructure, Energy (including Nuclear) and Environmental, which are largely governed by regulation and benefit from non-discretionary spend with long-term visibility of committed funding. The Specialist Building segment focuses on refurbishment schemes in the High Quality Residential and Science markets in London and the Home Counties.

Learning Technologies Group

Founded in 2013, LTG is a leader in the growing workplace digital learning and talent management market. The Group offers end-to-end learning and talent solutions ranging from strategic consultancy, through a range of content and platform solutions to analytical insights that enable corporate and government clients to close the gap between current and future workforce capability. LTG's purpose is to help systematise the process of 'putting the best people into the right roles becoming the best they can be', transforming large organisations' ability to scale, and flex to meet future market opportunities. LTG represents a unique mix of product and services that focus on partnering with clients to achieve measurable results and close the gap between current and future workforce capability. Its portfolio includes LEO, Gomo Learning, Preloaded, Eukleia, Rustici Software, and NetDimensions and the Group has offices in Europe, North America, LATAM and Asia-Pacific.

Judges Scientific

Founded in 2002, Judges Scientific specialises in the acquisition and development of a portfolio of scientific instrument businesses. It has a strategy to expand through both organic growth within its subsidiary companies and through the acquisition of top-quality businesses with established reputations in world-wide markets. The Group's companies are primarily UK-based with products sold worldwide to a diverse range of markets including: higher education institutions, the scientific communities, manufacturers and regulatory authorities. Its count currently stands at 20 subsidiaries ranging from software used for the computer-controlled testing of soils and rocks to cryocoolers for the X-ray diffraction market and for applications such as radio astronomy.

Some comments on risk

Investors using this Service must have a higher attitude to risk for this proportion of their asset base, even though their general attitude to risk for their overall wealth may be lower. Investors in any type of higher risk asset class must be prepared for the possibility of large capital

losses or a permanent loss of capital; for example, were original capital values of this portfolio to fall more than 40% this would remove the potential Inheritance Tax savings. In periods of sustained economic downturn we may experience some significant fluctuations in values. This investment strategy requires a fully invested position and does not have the ability to hold large cash weightings, 'lower risk' assets or diversifying assets to temper the volatility.

This portfolio should be treated as a longer term investment strategy, ideally for lifetime, given that the tax relief can only be realised where qualifying shares are held upon death.

Portfolios will be invested directly into smaller company shares traded on the Alternative Investment Market (AIM); these investment portfolios possess different characteristics to 'mainstream' discretionary managed portfolios that typically incorporate a range of asset classes such as fixed interest, larger company equities and alternative investments.

The headline risks of this strategy, which is not an exhaustive list, include the following:

- **Business Relief** - this is a Government sanctioned tax relief that may be removed or restricted, therefore the potential tax benefit could be lost or reduced.
- **The qualifying status of each individual investment** - there are specific criteria for companies to meet to qualify for the relief. If an investee company fails to meet the criteria it will not qualify for the relief.
- **Holding period** - qualifying investments must be held by the investor for a minimum of two years out of the five years preceding and upon death.
- **Investment and liquidity** - the ability to buy and sell smaller company shares may be restricted and share price movements will be more pronounced than larger companies.

In short this means that the risk is amplified beyond investment risk alone and is in exchange for an Inheritance Tax concession.

Meet the team

Ivan Teare, Head of Specialist Tax Portfolio Service - Investment Director

Ivan began his investment management career in 1996 with Hargreave Hale, joining Rathbones from Gerrard Investment Management in 2005.

Having graduated in 1996 with honours in Politics, Economics and Law from the University of Buckingham he has gained the Chartered Institute for Securities and Investment Diploma and is a Chartered Fellow of the Chartered Institute for Securities and Investment.

Ivan is head of specialist tax portfolio service, responsible for Rathbones' specialist tax portfolios which incorporate AIM quoted inheritance tax and enterprise investment scheme strategies.

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Jaclyn King-Gibson, Investment Director

Jaclyn began her investment career at Rathbones in 2004 and has worked in a smaller companies investment team that covers AIM traded EIS and Business Relief investments since 2006. She has been awarded the Private Client Investment Advice Diploma, EIS Diploma, passed Level 1 of the CFA, and is a Chartered Fellow of the Chartered Institute for Securities and Investment.

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Scott Lothian, Investment Director

Scott is an investment director with over 20 years' industry experience. He joined Rathbones in June 2021 from Brooks Macdonald Asset Management, where he spent eleven years and served as both Head of AIM and Head of Direct Equities. A graduate of Heriot Watt University, Scott is also a Chartered Fellow of the Chartered Institute for Securities and Investment (CISI) and holder of the Investment Management Certificate (IMC). Scott specialises in the management of tax efficient AIM IHT portfolios.

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Emma Powell, Client Service Executive

Emma began her investment career in 2008 within operations for Deutsche Bank Private Wealth Management. She moved to Rathbones in 2012 working within client reporting and also the fees department. Emma graduated with a degree in Accounting & Finance from Liverpool John Moores University in 2007 and has since gained the Investment Operations Certificate to become an Associate member of the Chartered Institute for Securities and Investment.

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Robert Boyd, Client Service Executive

Robbie joined Rathbones in 2011. He has gained experience in a number of departments since joining including Fees, Capital Gains Tax, Provider Business Support, Client Reporting and Rathbones Online Help prior to joining the Specialist Tax portfolio service team. Robbie has successfully completed the Investment Operations Certificate to become an Associate member of the Chartered Institute for Securities and Investment.

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Teresa Cooney, Client Service Executive

Teresa began her investment career in 2017 within operations for Franklin Templeton on a temporary contract before moving on to FNZ Ltd as a dealing officer. She moved to Rathbones in December 2019 gaining experience working with Middle Office and Suitability, prior to being promoted to Client Service Executive for Scott Lothian and Ian Thompson.

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Jack Lynch, Client Service Executive

Jack joined Rathbones in 2016. He has gained experience in a number of departments within operations beginning with Static Data, working with the Account Opening & Standing Orders teams. Later working within the Oversight & Controls department with the Data Verification team before joining the Specialist Tax Portfolio Services team in 2022. Jack has successfully completed the Investment Operations Certificate to become an Associate member of the Chartered Institute for Securities Investment.

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