CHARLES STANLEY

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Could AIM help your clients who have sold their business in the last three years?

Find out how this works in our client example below:

Executive summary

Family businesses often qualify for business relief and can be passed on to beneficiaries free of inheritance tax. If a client chooses to sell their business, they can lose this exemption if the sale proceeds remain in cash.

Fortunately, if the sale occurred within the last three years, the client can reinvest some or all of the proceeds into an AIM portfolio. In this scenario, the AIM portfolio would immediately qualify for 50% business relief. In the event of the client's death, this could reduce the inheritance tax liability from 40% to 20%, a significant saving for their estate.

A little about Sarah

Sarah had successfully built Josa Gardens from little more than an allotment to a successful company with three garden centres.

Sarah's children weren't interested in taking over the business as both had their own flourishing careers. Sadly, Sarah's husband, John, suddenly passed away and Sarah made the decision that it was time to hang up her gardening gloves for good. Shortly after putting Josa Gardens up for sale, Sarah received an offer of £1 million which she accepted.

The problem

Sarah and her late husband John had built up plenty of savings. This meant Sarah could enjoy an easy retirement. However, following discussions with her financial adviser, she realised that the value of her estate was significantly above her inheritance tax allowance thresholds.

The shares in Josa Gardens had qualified for inheritance tax relief but the sale proceeds did not.

The solution

Sarah met with her financial adviser who assessed her objectives, risk appetite and capacity for loss. After discussion, the financial adviser recommended that she reinvest the proceeds back into business relief qualifying assets, in Sarah's case a portfolio of AIM shares, as she had plenty of assets and was willing to accept a higher level of risk.

The adviser explained that as it had been less than three years since the sale of Josa Gardens, the new AIM portfolio would immediately qualify for 50% business relief.

Just one year after investing in the AIM portfolio, Sarah sadly passed away. As she held qualifying AIM shares at the time of her death and business relief legislation remained unchanged, her investment qualified for 50% business relief. This meant her family faced a significantly reduced inheritance tax bill, helping to preserve more of her legacy for the next generation.

Turn over to see how this works in numbers

The value of investments can fall as well as rise. Investors may get back less than invested. Past performance is not a reliable guide to the future. Charles Stanley is not a tax adviser. Tax treatment depends on the individual circumstances of each person or entity, and may be subject to change in the future.

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How an AIM IHT Portfolio can pass an extra £179,473 to Sarah's beneficiaries.

Sarah

Sarah receives £1,000,000 following the sale of her company

Cash held in the Bank	Charles Stanley AIM IHT Portfolio
£1,000,000 Into bank with no fees or charges	**£990,000** Invested into service after 1% dealing fee
Sarah dies after one year	
£1,050,000 Value assuming a 5% interest rate from the bank	**£1,024,650** Value assuming 5% growth but with 1.25%+ VAT portfolio management fee
IHT charge £420,000	**IHT charge** £204,930
£630,000 Passed to beneficiaries	**£809,473** Passed to beneficiaries after 1% dealing charge to sell the portfolio

This example is for illustrative purposes only and it assumes that Sarah's inheritance tax nil rate bands have been used.
Any growth or losses illustrated are likely to differ.
This example does not include any financial adviser fees.
The Charles Stanley AIM service has an Annual Management Charge of 1.25% + VAT and 1% dealing commission.
Portfolios over £1 million have lower charges which have not been illustrated. A small proportion of the Charles Stanley AIM portfolio may be held in cash which will not qualify for business relief at the time of death.

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