

# *Inheritance Tax Portfolio Service*

HARGREAVEHALE

contemporary thinking with traditional values

## About Hargreave Hale

The roots of Hargreave Hale date back to 1897, when the firm was originally founded in Blackpool by Marsden W Hargreave. His family are still active in the firm today. The firm retains operations in Blackpool and there are now offices in London, Carlisle, Bangor, Worcester and Lancaster.

In February 2001, the firm converted from a partnership to a limited company, with Investec Bank (UK) Ltd taking a 35% stake.

Hargreave Hale continues to pride itself on offering an efficient, personal service along with advice tailored to each client's individual needs.

## Why use an inheritance tax portfolio?

Tax planning is becoming more and more important, as the tax levy imposed by the Government increases to pay off the national debt. Inheritance tax is one of the most unpopular taxes. People understandably resent the Government taking money away from loved ones when passed on through an inheritance.

With property values remaining relatively high, more and more people have found that the value of their estate is higher than the Inheritance Tax (IHT) exempt threshold.

IHT may be mitigated by giving money away or putting it into trust. The principal drawback of these solutions is that access to the capital is lost - a very high price to pay. A more flexible way of mitigating IHT and maintaining access to capital is by using Business Property Relief (BPR).

The value of assets that qualify for Business Property Relief is disregarded for Inheritance Tax purposes, so long as they have been held for at least two years before death. The advantage is that, broadly speaking, most AIM listed stocks qualify for Business Property Relief. Investing in a portfolio of AIM listed shares (securities) can quickly mitigate Inheritance Tax. Furthermore, if capital is required, all the securities can be sold but this money would then form part of the estate.

## Need some help?

Please contact **Richard Hallett** for further information, or if you have any questions:

Telephone

**020 7009 4900**

Email

**[richard.hallett@hargreave.com](mailto:richard.hallett@hargreave.com)**

Telephone calls may be recorded.

## How does it work?

The securities are included in the deceased's estate for probate purposes and revalued as at the date of death. However, if 100% Business Property Relief is available, the value of the securities will not attract death duties - no Inheritance Tax will be payable on their value at the time of death.

### What happens if the investor dies within two years of investment?

The portfolio will not benefit from Business Property Relief, and therefore the assets will become part of the taxable estate. However, if the investor has a surviving spouse then the assets may be transferred across without triggering an IHT liability, or restarting the two year qualifying period.

### The major restrictions are:

The securities within an IHT portfolio must be 'unquoted' (which for taxation purposes includes AIM and Plus Market listings). The underlying business assets must be employed in an ongoing qualifying trade. This effectively excludes businesses which trade in securities, land or buildings, or are involved in investment activities.

### What are the AIM and Plus markets?

The Alternative Investment Market (AIM) and PLUS Market are both designed to allow smaller companies to float shares more easily and cost effectively than the main market. Listing requirements tend to be less onerous, and companies on these markets may not be as well established as those on the main market.

## Portfolio Construction

Hargreave Hale will construct a directly invested, diversified portfolio of securities, all of which potentially qualify for Business Property Relief. Composition will depend on the individual client's preference for risk and desire for income. Portfolios are designated as either growth, balanced or higher income from the onset. The number of individual securities purchased will range from 15-25, again dependent on the risk profile selected.

**Minimum portfolio size is £75,000.**

### Example

Asset	With BPR (£)	Without BPR (£)
Property	600,000	600,000
Listed Equities	75,000	300,000
Cash on Deposit	25,000	100,000
IHT Portfolio	300,000	
Total value of estate	1,000,000	1,000,000
Less IHT nil rate band	325,000	325,000
Less assets qualifying for 100% BPR	-300,000	
Net Taxable Estate	375,000	675,000
IHT Payable @ 40%	150,000	270,000
Residual value of estate	850,000	730,000

# *Investment strategy*

The investment risk related to companies that can potentially qualify for the IHT benefits varies from company to company. However, it must be emphasized that overall investment in such companies should be considered high risk, for reasons explained on page seven.

In order to reduce the amount of risk, we employ a strict 'value' based discipline approach to stock selection. This process involves detailed analysis of the universe of stocks available. The securities selected will display some or all of the following characteristics:

- Focus on organic rather than acquisition led growth.
- The business has passed the test of time, i.e. has been through one or more business cycles.
- A consistent trend of generating cash rather than just profit.
- A clear commitment and track record of paying Dividends.
- A stable management team.
- Market value supported by tangible assets or yield.

For more growth-orientated clients with a higher appetite for risk, a different approach would be adopted. Close attention is still paid to the management team, the cash flow characteristics of the business and also the 'quality' of the earnings. We believe that irrespective of the tax benefits, the portfolios make a compelling investment proposition. The track record of our IHT portfolios supports this, although past performance cannot be guaranteed in the future.

**We publish regular performance updates for the Inheritance Tax Portfolios.**

**Please contact your investment manager who would be happy to provide you with the latest factsheet.**

# ***The IHT investment team***

The Inheritance Tax portfolio service is managed by Richard Hallett, a key member of Hargreave Hale's smaller companies investment team. The team is well regarded in the investment management industry and is led by the highly experienced Giles Hargreave.



**Giles Hargreave**

Chief Executive and head of the UK smaller company fund management team, Giles began his investment career in 1969 as an analyst at James Capel. In 1985 he formed his own investment management business, Hargreave Investment Management, before opening a London office and becoming Chairman of the family stockbroking firm Hargreave Hale Limited. Giles and his team have won many accolades for the management of the award-winning Marlborough Special Situations Fund.



**Richard Hallett**

Richard Hallett qualified as a chartered accountant with Ernst & Young before joining Singer & Friedlander in 1995. At S&F he managed top performing smaller company mandates including the S&F AIM fund. An investment director, he was also head of tax efficient portfolios until he joined Hargreave Hale in August 2005 as a UK equities fund manager. Richard is the investment manager for the Hargreave Hale Inheritance Tax Portfolio Service.

## **George Finlay**

George Finlay has been involved in institutional research and fund management, specialising in smaller companies, since graduating from Oxford University in 1970. He first worked with Kemp Gee and then GT Management. He joined Hargreave Hale in 1988. George is responsible for researching smaller companies and making investment recommendations for the unit trusts and private client portfolios managed by Hargreave Hale, as appropriate.

## **Guy Feld**

Guy Feld is a graduate of Oxford University with 13 years City experience in both fund management and broking at BZW, UBS and Teather & Greenwood plc. Guy joined Hargreave Hale in March 2003 and his principal role is as a research adviser to the unit trusts and other funds managed by Hargreave Hale.

## **Joshua Ross-Field**

Joshua has worked at Hargreave Hale for six years. He is a private client stockbroker, and is responsible for the administration of the IHT portfolios.

## Service charges

There are no upfront charges made by Hargreave Hale when you invest in the Hargreave Hale IHT Portfolio Service. We only charge a competitive annual fee, paid in arrears, plus commission on deals made for your portfolio.

If you invest through a financial adviser it is possible that there will be an initial charge payable to them out of your initial investment and that a portion of the annual fee may also be paid to the adviser.

### Deal Fees

Once the portfolio is fully invested the level of ongoing dealing commissions should be minimal.

Our dealing commissions on individual deals are structured as follows:

<b>1.65%</b>	for the first £5,000
<b>1.00%</b>	on the next £10,000
<b>0.50%</b>	on the next £85,000
<b>0.25%</b>	on the balance

### Annual Fee

We charge 1.5% (plus VAT) of the current total value debited half yearly in arrears in January and July.

### Questions about charges?

If you have any questions about these charges, please contact **Richard Hallett** on **020 7009 4900**.

## Administration and reporting

A comprehensive administration service is included in the package. Hargreave Hale have their own in-house administration and support team. Clients are offered a simple account opening process with only one set of forms. They will receive quarterly valuation and transaction packages. A comprehensive custodian and nominee service is also included.

Hargreave Hale also provides an efficient probate valuation service and can provide full estate liquidation. Probate valuations are usually issued within 2 working days, and fees are charged based on the value of the portfolio. Probate loans are also offered at competitive rates.

Income can be reinvested or paid away whichever is the preferred option. Interest is paid on the cash balances held, and a tax certificate is produced shortly after the end of each tax year, showing how much tax has been deducted from both dividends and interest.

Hargreave Hale has full discretion to make investment decisions within the portfolio without prior approval from clients. The decisions will be made in line with the investment strategy agreed with the client.

Clients retain full beneficial ownership of their portfolio. If access to funds is required, Hargreave Hale can sell all or part of the portfolio at any time.

## *The risks*

Hargreave Hale is not a professional taxation adviser and we recommend that clients seek independent advice in this respect. This document is prepared in accordance with our understanding of current tax law (April 2010) and there are risks that tax legislation may be subject to change in the future. Tax treatment depends on individual circumstances.

Hargreave Hale cannot guarantee unreservedly that the investments made will either qualify or continue to qualify, for tax relief.

Any Smaller Company Tax Relief Portfolio should be regarded as a high risk, longer-term investment.

Smaller companies are less able to overcome difficulties. They may rely on a narrow range of income streams and/or a small number of key individuals. In addition, shares traded on the AIM

market are subjected to less regulation than those on the main market. We only recommend Hargreave Hale tax portfolios for clients who maintain significant alternative financial assets. The value of the investments in the portfolios may be subject to significant volatility and consequently clients may realise a loss on disposal.

Smaller company and AIM listed securities are also typically less liquid than their larger brethren. It can be difficult to buy and sell large amounts of shares at the quoted market price and this may reduce gains or increase losses. There are fewer market makers and generally a lower percentage free float of shares. Also, Plus Market listed and unquoted shares (including preference shares) will often trade only on a matched bargain basis. Therefore liquidity on any particular day may be limited.

It should be noted however, that Hargreave Hale will typically be focusing on the larger and more liquid businesses on the AIM market. Liquidity is also governed by two other major factors:

1. The success of the business. Profitable businesses which are trading well tend to be rather more liquid than others.
2. The size of the investment. If there is a diversified portfolio, individual securities will be of a limited size and therefore maybe more liquid.

**Past performance is not a guide to future performance. Capital is at risk when using an IHT Portfolio.**

## *What next?*

If you would like to set up a **Hargreave Hale IHT Portfolio**, or if you have any questions about how the service works, please contact **Richard Hallett**:

Telephone

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Email

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**Hargreave Hale Limited**

[www.hargreave-hale.co.uk](http://www.hargreave-hale.co.uk)

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Hargreave Hale is incorporated in England and Wales. Company Number 3146580.

Registered office: 9-11 Neptune Court, Hallam Way, Blackpool FY4 5LZ.

Authorised and regulated by the Financial Services Authority (209741).

Member of the London Stock Exchange, the Plus Market and APCIMS.