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Long term care planning **Elderly clients looking to keep access and control**

As we age, naturally we begin to think about the possible future costs of care. Whilst none of us know what care we might need, for some clients there is reassurance to be gained from knowing that they can access their money as personal circumstances change.

Clients may also be worried about the size of an Inheritance Tax (IHT) liability that could have accumulated against the value of their estate. They may feel that to mitigate the IHT they will have to compromise on having access to their funds.

This worry often stems from the more commonly understood rule that gifts and trusts take 7 years to become 100% IHT relievable. However, the good news is that an investment that qualifies for Business Relief (BR) can take just two years. In addition, by investing into shares of BR-qualifying companies, the investment will stay in the client's name and enables them to retain full control of their finances.

Don't invest unless you're prepared to lose all the money you invest. This is a high-risk investment and you are unlikely to be protected if something goes wrong.

Take 2 minutes to learn more on page 4

Meet Patrick

Patrick is currently 80 and in good health. However, he's preparing for the future and has been researching the cost of a private care home. He's lived in the same house for a long time and over the years its value has increased considerably, contributing to an IHT liability. He wants to have access to his funds for a care home when needed and would like to make his investment tax-efficient so that it addresses his IHT liability.

The adviser identifies £250,000 which Patrick could invest, currently sat in ISAs. This ISA balance has successfully grown free of Income Tax over the years, but Patrick wants to prevent 40% of that being lost to Inheritance Tax when he dies.

The adviser explains that in order to become 100% IHT relievable, the money must be used to buy a share portfolio investing in one or more BR-qualifying businesses. These can either be unquoted businesses, or businesses listed on the Alternative Investment Market (AIM).

The adviser explains to Patrick that moving the ISA balance to the Blackfinch Adapt AIM Portfolios would continue the tax-free income stream and tax-free capital growth as well as being 100% IHT relievable within 2 years if held at the time of death. He explains the AIM Market is higher risk as it invests in growing businesses but it has potential for high returns.

The adviser also explains that there are BR-qualifying portfolios available which invest in renewable energy projects in the UK. These would be available through the Blackfinch Adapt IHT portfolios which offer more stable returns in comparison to the Blackfinch Adapt AIM Portfolios. After considering his options, Patrick tells his adviser that he is most interested in investing in renewable energy and would prefer the relatively lower risk option as well as protect the access to his funds.

Let's look at how Patrick's estate could change, using two different strategies:

£250,000
remains in a high street bank ISA

Patrick chooses to invest **£250,000** to the Blackfinch Adapt IHT Portfolios. There was a 1% fee to sell the original portfolio. Blackfinch charged an initial fee of 2% and a 1% dealing fee. The net value of the investment into the Portfolio is **£240,125**

Patrick dies 3 years later
Apply a growth rate of 3% per year net of charges

£273,182 ISA valuation

£262,391 Adapt IHT portfolio valuation

£109,273 Inheritance Tax liability charged at 40%

£0 Inheritance tax liability

£163,909
Value of investment at time of death

£259,767 Value of the estate after the 1% dealing fee to sell the shares has been paid

Clients must be advised that annual management charges (AMC) may apply. For Adapt IHT, the AMC (0.5% + VAT) only applies when returns exceed the target return of 3-5% (dependent on the target return selected).

Inheritance Tax

Everyone has an allowance of £325,000, known as the nil rate band, which they can leave to beneficiaries free of IHT. If the individual has an estate valued above this amount, it could be subject to IHT at a rate of up to 40%.

Residence Nil Rate Band

Introduced in 2017, the Residence Nil Rate Band (RNRB) is an additional IHT relief that can be claimed against the value of a main residence. The RNRB is currently £175,000. RNRB rates are frozen until 2027/28 and is only applicable to one home of which the deceased has lived and owned at some point, and is being passed on to direct descendants (e.g. children or grandchildren). RNRB starts to be reduced where the death estate exceeds a £2m taper threshold.

Supporting the UK Economy

Certain businesses qualify for Business Relief, including shares in many AIM-listed firms. Unlike traditional IHT solutions, which can invest globally, clients' money is invested in BR-qualifying firms, that are predominantly UK-based

Advantages of BR

Can help preserve a family's wealth

BR assets can replace each other

Transfer by way of gift:
If the individual (donor) holds BR-qualifying shares for 2 years before gifting, and the recipient of the gift still holds the shares at the time of the donor's death, the investment retains IHT exemption for the donor (reduce estate).

Transfer into Trust
If the shares were already held for two years before the transfer into trust, the potential lifetime charge to IHT is reduced from 20% to zero.

Only takes 2 years to qualify for BR
Shares must be held at the time of death

Upon death there are various options

- Shares can be encashed and distributed to beneficiaries.
- Shares can be encashed, and proceeds paid to HMRC to pay any IHT bill due on the estate (Direct Payment Scheme).
- Shares can be passed down to beneficiaries who can then retain them. If the original owner had held the shares for over two years, the shares would be immediately BR qualifying (exempt) in the beneficiaries estate

For more information, see our **Adviser's Guide to BR** or speak to one of the team for more information.

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Risks

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the FCA key risks?

1 - You could lose all the money you invest
If the business you invest in fails, you are likely to lose 100% of the money you invested. Most start-up businesses fail.

2 - You are unlikely to be protected if something goes wrong
Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker. (https://www.fscs.org.uk/check/investment-protection-checker)

Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated firm, FOS may be able to consider it. Learn more about FOS protection. (https://www.financial-ombudsman.org.uk/consumers)

3 - You won't get your money back quickly
Even if the business you invest in is successful, it may take several years to get your money back. You are unlikely to be able to sell your investment early.

The most likely way to get your money back is if the business is bought by another business or lists its shares on an exchange such as the London Stock Exchange. These events are not common.

If you are investing in a start-up business, you should not expect to get your money back through dividends. Start-up businesses rarely pay these. (https://www.financial-ombudsman.org.uk/consumers)

4 - Don't put all your eggs in one basket
Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

A good rule of thumb is not to invest more than 10% of your money in high-risk investments. (https://www.fca.org.uk/investsmart/5-questions-ask-you-invest)

5 - The value of your investment can be reduced
The percentage of the business that you own will decrease if the business issues more shares. This could mean that the value of your investment reduces, depending on how much the business grows. Most start-up businesses issue multiple rounds of shares.

These new shares could have additional rights that your shares don't have, such as the right to receive a fixed dividend, which could further reduce your chances of getting a return on your investment.

If you are interested in learning more about how to protect yourself, visit the FCA's website. (https://www.fca.org.uk/investsmart)

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