Client planning scenario

For professional advisers and paraplanners only. Not to be relied upon by retail investors.

Clients who have inherited a spouse's ISA

An Individual Savings Account (ISA) offers valuable tax benefits during someone's lifetime, but is still subject to inheritance tax along with the rest of the person's estate.

This example explains how clients who have inherited a spouse's ISA can use Additional Permitted Subscription rules as part of their estate planning.

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A brighter way

About this scenario

This tax-planning scenario is designed to help advisers develop appropriate planning strategies for their clients. Advisers should consider, among other things, the value of tax relief for their client. You will also need to consider the impact of charges (including dealing fees and ongoing fees such as annual management charges) relevant to the products represented and/or any specific product you have chosen.

Nothing here should be viewed as advice. Any suitability decisions should be based on a comprehensive review of your client's objectives and needs, as well as their capacity and attitude towards risk. For more details and information about the associated risks, please see the relevant product literature available at **octopusinvestments.com**.

Additional Permitted Subscription rules

Since April 2015, surviving spouses of ISA investors have been able to make additional ISA subscriptions by being given a one off incremental ISA allowance equivalent to the value of their spouse's ISA when they died. This extra ISA allowance is available to a surviving spouse whether they inherit their spouse's ISA or not.

Meet Sylvia, who recently lost her husband Gordon

Sylvia is sorting out Gordon's estate. He left all his assets to her, including his Stocks and Shares ISA worth £200,000. Sylvia's estate is above the usual inheritance tax allowances and faces a sizeable inheritance tax liability when she dies. Gordon's passing has encouraged her to look at how she can pass on as much to her three children as possible.

A tax-planning solution from Octopus

Sylvia's financial adviser explains that due to the APS rules, Sylvia has the opportunity to reinvest some or all of the value of Gordon's ISA into a new ISA of her choosing. If she does so she will benefit from the lifetime tax benefits such as tax free interest, dividends and growth that an ISA wrapper affords.

A new ISA taken out by Sylvia will be subject to inheritance tax when she passes away. At 40%, that would mean an inheritance tax bill of £80,000 on the ISA pot alone.

Sylvia's adviser makes an assessment based on her circumstances and her objectives, including the fact that she doesn't need to access the amount she inherited from Gordon, and the fact that she is keen for that money to stay invested in stocks and shares which has the potential to grow for her children. He suggests she opens an Octopus AIM Inheritance Tax ISA that is specifically managed to invest into companies that qualify for Business Property Relief (BPR). As long as she has held the investment for at least two years when she dies, it will pass to her children free from inheritance tax. It's worth remembering that ISAs which invest in AIM listed companies and those which qualify for BPR are likely to have a higher risk profile than standard stocks and shares ISAs.

An important reminder about key risks

The value of an investment, and any income from it, can fall or rise. Investors may not get back the full amount they invest.

We invest in companies that we believe qualify for BPR. Entitlement to claim relief will depend on companies invested in qualifying for BPR at the time a claim is made. Relief is assessed by HMRC on a case by case basis.

The benefit of tax relief will depend on personal circumstances. Tax legislation may change in the future.

The shares of AIM listed companies could fall or rise in value more than shares listed on the main market of the London Stock Exchange. They may also be harder to sell.

How an Octopus AIM Inheritance Tax ISA can reduce the inheritance tax due on an estate

This diagram shows how Sylvia can minimise the inheritance tax due on her estate by opening an Octopus AIM Inheritance Tax ISA. Sylvia can make a cash subscription of up to £200,000 under additional permitted subscription. She'll be maximising the lifetime benefits available to her from ISA wrappers, and importantly her children shouldn't have to pay as much inheritance tax on what she leaves to them.

Sylvia

£200,000 subscribed for a standard stocks and shares ISA, from which a 1% dealing fee is taken as shares are purchased.

£200,000 subscribed into Octopus AIM IHT ISA , from which a 1% dealing fee is taken as shares are purchased.

After two years, investment becomes free from inheritance tax

Assuming an example growth rate of 5% across both investments. Annual management charges and dealing fees have been applied to both portfolios in line with those applicable to Octopus AIM IHT ISA.

Sylvia passes away after two years

The value of her portfolio with growth and fees. **£211,532**

The value of her portfolio with growth and fees. **£211,532**

£84,613
inheritance tax due

£0
inheritance tax due

£124,804 cash value available to beneficiaries after shares have been sold and 1% dealing fee has been applied

£209,417 cash value available to beneficiaries after shares have been sold and 1% dealing fee has been applied

Sylvia's children

Note: This example is for illustration purposes only and assumes that the nil-rate band is offset against other assets. It is important to note that the risk profile of each portfolio, and any investment growth or losses, is likely to differ. Investments in AIM-listed companies can fall or rise in value much more sharply than shares in larger, more established companies.
The annual management charge is 1.5% +VAT. The estimated annual dealing charges are 0.20%, typical for the Octopus AIM Inheritance Tax ISA. However, actual dealing charges experienced by an investor may be higher or lower.

The example assumes the costs for each portfolio are the same, but actual costs may be different. It does not include any charges paid for financial advice.

Octopus can help your clients

Octopus is the UK's largest provider of investments that qualify for Business Property Relief from inheritance tax (source: Tax Efficient Review, 2020).For more information on our range of tax-planning solutions, call **0800 316 2067** or visit **octopusinvestments.com**.

Octopus: an investment company with a difference

WINNER FOUR TIMES
Investment Life & Pensions Moneyfacts Awards 2016-2019
Best Tax and Estate Planning Solutions Provider

When we launched Octopus in 2000, our ambition was to create a different type of financial services company. We wanted to be known for putting our customers first.

Today, Octopus is an investment company with more than 750 employees and more than £8.6 billion in funds under management (source: Octopus, March 2020, funds under management includes funds under advisory mandates and the Octopus Cash service). We work with tens of thousands of clients, and we've built market-leading positions in tax-efficient investment, smaller company financing, renewable energy and healthcare. But no matter how big we get, our aim is to keep doing the simple things well and to look after each of our customers, day in, day out.

Our products are not suitable for everyone. Any recommendation should be based on a holistic review of your client's financial situation, objectives and needs. We do not offer investment or tax advice, but we recommend investors seek professional advice.

Why not look through some of our other tax-planning scenarios?

- Clients who have sold a business in the last three years
- Clients with power of attorney over someone's affairs
- Clients looking to settle assets into a trust
- Clients who require access to their investment
- Clients with a loan trust in place

For a copy, or to find out more about Octopus and what we do:

Call our Business Development Managers on **0800 316 2067**
or visit **octopusinvestments.com/clientscenarios**.