Client planning scenario

For the use of professional advisers only and not to be relied upon by retail clients.

Settling assets into trust

A lifetime transfer of assets into a discretionary trust is a 'chargeable lifetime transfer'. It can immediately trigger a charge of 20% on the amount settled in excess of the client's nil-rate band, which could deter many clients.

This example explains how clients could reduce or eliminate this charge if they settle shares that qualify for Business Property Relief (BPR) into trust.

About this scenario

This tax-planning scenario is designed to help you develop appropriate planning strategies for clients. Advisers should consider, among other things, the value of tax reliefs for their client. You will also need to consider the impact of charges (including initial fee 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, needs and attitude towards risk. For more details and information about the associated risks, please see the relevant product literature available at **octopusinvestments.com**.

octopus investments

Meet Louise, who wants her wealth passed down to younger generations

Louise is keen to take steps to provide for her children and grandchildren after she dies. One of her biggest concerns is that the marriage of one of her children could end in divorce. Louise wants to make sure that her grandchildren will benefit from her wealth, rather than her assets being lost through any divorce proceedings.

Louise talks to her financial adviser about settling her existing share portfolio worth £600,000 into trust for her children and grandchildren. Her adviser explains that as she has not previously made any gifts or set up any trusts, she will be able to put the first £325,000 (the nil-rate band) into trust with no charge. Anything settled into trust over £325,000 would immediately trigger a chargeable lifetime transfer of 20%. This would reduce the amount in the trust by £55,000. If Louise were to die within seven years of setting up the trust, further inheritance tax would also be payable.

A tax-planning solution from Octopus

Louise's adviser makes an assessment based on her objectives and attitude to risk. Given this, her adviser suggests selling her share portfolio and reinvesting the proceeds into the Octopus Inheritance Tax Service prior to settling the assets into trust. This will invest Louise's money in one or more unlisted UK companies that are expected to qualify for Business Property Relief (BPR). This is offered by the government as an incentive to invest in such companies. She is happy to take additional risk with her investments in order to invest in companies that qualify for relief from inheritance tax.

Once the BPR-qualifying shares have been held for a minimum of two years, they should be exempt from inheritance tax. This means that Louise can then transfer the shares into a discretionary trust and no chargeable lifetime transfer will be payable.

If the trust continues to hold investments that qualify for BPR, there will be no future inheritance tax charge on the trust. What's more, this planning hasn't used any of her nil-rate band, which can therefore be used to offset against other assets, even if she dies within seven years.

The creation of a trust helps Louise manage who will ultimately benefit from her wealth.

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 the 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 unquoted companies can be harder to sell than shares listed on the London Stock Exchange.

Reducing an inheritance tax liability with an investment in the Octopus Inheritance Tax Service

This diagram shows how the chargeable lifetime transfer payable on settlement of assets into trust could be eliminated by making an investment into the Octopus Inheritance Tax Service and then moving these assets into trust.

Louise

£600,000
placed in trust

£600,000
invested in the Octopus Inheritance Tax Service

An example net growth rate of 3% per annum has been assumed. Initial charge of 2%, dealing fee of 1% and annual management charge of 1%+VAT per annum applied to both portfolios.

First **£325,000**
set against nil-rate band – therefore no charge

Remaining **£275,000**
subject to **£55,000** chargeable lifetime transfer

After two years

£617,633
investment (now BPR-qualifying) placed in trust

£0
chargeable lifetime transfer

£578,191
held in trust for beneficiaries

£617,633
held in discretionary trust for beneficiaries

Although Louise is in good health, if she were to die within seven years of settling assets into the trust, an additional inheritance tax liability may be triggered.

No further inheritance tax liability, provided the trust retains the investment until either Louise's death or the seventh anniversary of when the assets were settled into trust.

Please note: This example is for illustrative purposes only and each investor's own tax situation may be different. BPR-qualifying status is subject to HMRC assessment at the time a chargeable transfer is made, for example, when an asset is settled into trust. It is important to remember that the risk profile of each portfolio, costs and any investment growth or losses, are likely to differ.

The Octopus Inheritance Tax Service has an initial charge of 2%, a deferred annual management charge of up to 1%+VAT per annum and a dealing fee, for investments and withdrawals, of 1%. This example 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, 2017). 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

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 550 employees and more than £7.5 billion in funds under management (source: Octopus, December 2017). 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.

Octopus Inheritance Tax Service is not suitable for everyone and we require investors seek professional advice before deciding to invest. They should also read the product brochure. This is available at **octopusinvestments.com**.

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 who would like to withdraw excess cash held in a business
- Clients who are additional rate tax payers
- Clients who would like to reduce their income tax liability

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**