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# Choosing an inheritance tax service that invests in unquoted companies

Recommending the right provider of BPR-qualifying investments for your client is important.

MICAP is the leading provider of independent due diligence, research tools and panel support services for the tax-advantaged investment market. We asked them what advisers should look for in an inheritance tax service that invests in unquoted companies.

MICAP believes in a three-pronged approach:

## Filter the market



Shortlist the whole market down to a manageable few products based on your client's needs.

## Research the manager and the product



Review due diligence reports from third party commentators.

## Evidence the process



Each case should show a clear audit trail for how you came to make your recommendation.

## The manager

These are long-term investments. So you want a manager that is financially strong. That's why MICAP scores each manager based on 23 different data points, which include:

- Net assets
- Last three years' net profits
- Length of trading history
- Experian credit rating
- AUM, BPR AUM, tax-advantaged AUM
- Regulatory permissions
- Board members
- Size of investment team

There are other considerations relating to the manager and their approach to managing a BPR product.

- Consider the size, experience and strategy of the investment team managing the underlying investments.
- Are there any key-person risks?
- Does the team have any experience managing institutional investments?
- Is there an independent investment committee and does it have any external members?
- Are there independent members on the boards of the underlying companies?

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A brighter way

### The product

Each product should be considered in terms of how well it matches a client's objectives. MICAP scores products across six different areas. We have summarised some of the key areas MICAP considers – which criteria is most important will depend on the client.

- **BPR qualification:** There is no advance assurance for BPR. So look at the steps a manager is taking to ensure the company or companies your client will hold shares in maintain their qualifying status. You can also look at how many successful claims for BPR have been made by the estates of clients who have passed away holding shares in the same company. This suggests that HMRC have had the chance to assess that company many times previously.
- **Liquidity:** With these types of investments, liquidity cannot be guaranteed. If being able to access some or all of their investment is important to your client, you could look at a manager's track record of providing liquidity in response to withdrawal requests. How much have they provided? What's the longest it's taken them to respond to a request? What safeguards do they have in place?
- **Track record:** Not all products will target the same level of growth. Those targeting higher growth will typically have to take more risk to achieve this. Looking at whether a product has delivered what it set out to achieve over the long term is a useful metric. Similarly, you should consider the track record of the manager in the sectors the product is invested in.
- **Diversification and concentration of the portfolio:** You could assess concentration risk by, for example, looking at the underlying company's largest asset, or its top five assets, as a percentage of the company's total value. You may also want to consider any large exposures to individual counterparties, such as renewable energy operators, film distributors and property developers to which the underlying company lends.

### The risks

It's also important to consider the risks when recommending a BPR-qualifying investment.

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

Tax treatment depends on individual circumstances and tax rules could change in the future. Tax relief depends on portfolio companies maintaining their qualifying status.

The shares of unquoted 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.

### Next steps

Choosing the right manager and the right product will depend on your client's objectives.

To find out more about MICAP and how they can help you with the BPR due diligence process, visit [micap.com](https://micap.com).

To see the Octopus Inheritance Tax Service on MICAP, visit [micap.com/review/56](https://micap.com/review/56)

We also have third-party reports and materials to help you. Give your local Octopus Business Development Manager a call on **0800 316 2067**, to see what's available.