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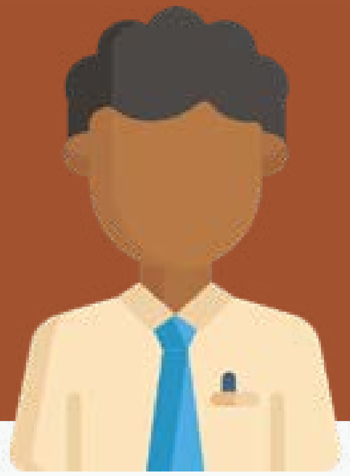
Clients with large ISA balances

Over time, many investors can accumulate a significant balance in an ISA. Whilst these long-term ISA savings are tax-efficient during the client's lifetime, for many investors they still create an Inheritance Tax liability when the client dies.

With good financial planning, this can be avoided without losing the benefits of the ISA wrapper for the client. In this client planning scenario, we take a look at how the Alternative Investment Market offers both diversification as well as tax-efficient investment vehicles for a client's portfolio.

Benefits of tax-efficient investments are subject to change and personal circumstances.



Meet Stuart

Stuart's wife took a career break to raise their children and he was the sole provider for 15 years. Now in his 60s, he has used ISAs over decades to build up tax-free savings year on year, now close to £400,000. These sit alongside his pension plan and the family home he and his wife own.

Stuart knows that his combined assets of £1.7 million are well above the current IHT threshold and residence nil-rate band. He also understands that his ISA savings specifically have created an IHT liability. Stuart visits his adviser with the aim to arrive at a plan to protect his hard-earned savings and mitigate IHT.

Guidance given by the adviser:
Stuart's adviser begins by asking about the family and their future plans, to better understand the investment objectives and ability to absorb the impact of financial loss.

The adviser explains to Stuart that AIM-listed shares can be held in an ISA-wrapper, and may qualify for Business Relief (BR) if held for two years and at the time of death. This would mean Stuart could continue to benefit from the tax-free benefits of an ISA whilst also reducing the IHT liability on the value of the investment.

He recommends the Blackfinch Adapt AIM ISA Portfolio, and goes on to explain it would also include tax-free dividends and no Capital Gains Tax on investment growth.

Let's take a look at how his portfolio could change, using two different investment strategies.
(Both assume the client has exhausted all applicable reliefs.)

Stuart retains £400,000 in his existing ISA	Stuart transfers £400,000 to a Blackfinch Adapt AIM ISA Portfolio
Stuart passes away 3 years later	Stuart passes away 3 years later
Inheritance Tax liability charged at 40% **£160,000**	Inheritance Tax due at a rate of 20% **£80,000**
Value of the investment **£240,000**	Value of the investment **£320,000**

Clients must be advised that this example is for illustrative purposes only and ignores fees, charges, returns and risks.
Please refer to our product literature for further details

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 2030 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 Relief for the donor (reduce estate).

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 in the beneficiaries 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

New Business Relief rates will apply from April 2026. Please refer to the Guide to Business Relief for further information.

For more information, please speak to one of the team.

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