

Protecting Clients' ISAs for Future Generations



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A haven for savers in a challenging environment

At a time when interest rates on traditional savings accounts are stuck at long-term lows and annual pension limits are heavily restricted, the Treasury-backed National Savings & Investments (NS&I) has made an announcement. From May 2020 it is cutting interest rates on its savings accounts and making its premium bond prizes harder to win. With this change, plus all the other dreary financial news that savers are contending with, it's increasingly important to make the most of the valuable saving schemes that are still available. The annual ISA allowance is one of them.

Tax-free growth in an ISA can be extremely beneficial for clients, from childhood to old age. Many clients can accrue hefty sums over their lifetime, with some clients having a collection of ISAs spread across a multitude of different types and providers. It is to older clients that you may need to look as they enter retirement age and beyond. It could be time for them to consider consolidating their savings and simplifying their affairs.

In particular, although these ISAs will remain tax-efficient throughout a client's lifetime, they represent a potential Inheritance Tax (IHT) liability on death. So, your clients might also wish to do some IHT planning, in order to protect these savings for their loved ones.

The role of Business Relief and the Alternative Investment Market

Fortunately, the UK government also provides another valuable scheme to investors: Business Relief (BR). This relief can reward clients for keeping their money invested in the UK, as investments can be potentially IHT-free following investment for two or more years, and if the investment is still held at death.

The Alternative Investment Market (AIM) can provide an opportunity for investors to benefit from BR. And as AIM-listed shares can be held in an ISA wrapper, this comes alongside the tax benefits of an ISA, including tax-free growth and income.

Clients with ISAs, who now require IHT planning, could transfer some or all of their current ISA holdings into the Adapt AIM Portfolios. This would allow them to retain the ISA wrapper with some other great benefits: the chance for impressive long-term growth, broader diversification in their portfolio and the potential for 100% IHT exemption after just two years.

Inheritance Tax Planning for more cautious clients

Due to the nature of the AIM market (consisting of smaller companies than those listed on the main stock exchange) an AIM investment can be deemed higher risk. If this is not a good fit for your client's risk profile, another option could be investment in a capital preservation-focused BR-based solution.

The Adapt IHT Portfolios are focused on preserving client wealth and mitigating IHT. They can be particularly useful for clients who are becoming a bit more cautious and wish to begin IHT planning, but also need to retain access to and control of their cash. The portfolios don't benefit from an ISA wrapper... but don't stop reading yet! They are very tax-efficient as the only potential tax liability is Capital Gains Tax (CGT) on withdrawals and this amount is often minimal as it is only based on any share price increase. It can either be offset against their annual CGT allowance or taxed at 10/20% if exceeding this. Of course, if left until death, the client would currently benefit from the CGT uplift and therefore there would be no tax payable on the growth.

The Adapt IHT Portfolios have an expected liquidity target of just 2-4 weeks. Even though they do not benefit from an ISA wrapper, they could be a suitable option for those clients whose objectives have moved away from tax-free income and growth to IHT mitigation. After two years, those savings can be protected from the potential 40% loss of IHT, so they can go to those they were meant for.

The Adapt AIM Portfolios and Adapt IHT Portfolios: two strong options to protect savings from IHT

If you would like to find out more about our IHT solutions and how we can support your work with clients, please call us on **01452 717070**, email **enquiries@blackfinch.com** or visit **www.blackfinch.com**.

IMPORTANT INFORMATION

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